REFIRE
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German banks' new property lending down by half, headed by residential

Germany's main real estate lending banks saw their new business underwriting for the residential sector collapse by 49.2% to €16.3bn in this year's first quarter. Last year in the same period the volume was a record €32bn, as investors rushed to lock down deals at favourable interest rates, in anticipation of the coming rise in rates a few months later, which of course duly came.

The figures relate to member banks of the **Association of German Pfandbrief-issuing Banks (VdP)**, effectively all the big lenders including **Deutsche Bank**, **Commerzbank**, the **Landesbanken** and the big **Sparkassen**.

The lending figures do mask strong differences according to asset classes, however. The figures for new real estate lending, as against just for residential, actually rose by nearly 20% to €25.6bn, up 3.2% over the previous quarter. This is still 47.8% below the corresponding period last year. This demand for financing is likely to stay depressed until the current phase of uncertainty about pricing and interest rate movements is resolved, said VdP president **Jens Tolckmitt**, presenting the latest figures.

On the residential side, does this represent the banks being more restrictive, or a collapse in demand on the part of borrowers? According to a useful recent study by **Barkow Consulting**, demand has actually recently been showing an uptick, but, against a background of slightly falling prices, the banks have heavily increased their credit checks at Schufa (for creditworthiness) and increased scrutiny of a potential borrower's ability to repay under stress conditions. They're also looking for more equity, which many borrowers can't stump up. Hence the high rate of refusals.

This very week (*June 5th*), new figures from **Barkow Consulting**, which rely on the **Bundesbank**'s own figures, show that new private residential lending in April is half of what it was in the same month last year. At a total of €13bn, it represents the lowest amount of lending in the month of April since the start of tracking such figures, over 20 years ago. From Barkow Consulting we hear that May is likely to be even worse.

Consultants **PwC** are also expecting further meltdown in the lending figures, as they anticipate new lending halving yet again over the coming months. A PwC study puts extensions to existing customers at fully 23% of all new lending - the highest share since 2016 - and a sign of just how few newly-bought properties are currently being financed.

PwC recently said that margins on lending had fallen significantly last year to their lowest level for ten years, and are continuing to fall through 2023. The consultants say they see plenty of indications that margins are still falling. It has become more expensive to refinance on the capital markets, with banks now having to pay higher interest rates on deposits - with construction rates not necessarily rising - against a background of increased competition among the banks to avoid losing market share.

Tougher times ahead for commercial properties

Tobias Dichtl, co-head of Market Intelligence at broker **Colliers**, says that commercial properties financed during the last boom phase of the low-interest environment are going to have a particularly hard time. "With financing maturities of five to ten years, which are typical for the market, many of these financings will expire in the coming years. Their refinancing will then take place in a market environment with fundamentally changed conditions," he says.

Colliers has identified a debt gap of €28 billion for the German commercial real estate market over the next seven years, equivalent to 14% of capital employed. A good two-thirds of this, or €19 billion, is likely to occur by 2026 alone.

According to Colliers, this gap represents a noticeable headwind for the transaction market, as equity capital required for refinancing is lacking for the purpose of new investment. In addition, the capital gap may have a negative impact on asset management, for example if

HIGHLIGHTS

Healthcare sector prices expected to fall, market still unsettled

We reported in the last issue of REFIRE about the concerns that institutional investors have been having about the German healthcare sector, in particular **See page 2**

Collapse in building permits bodes ill for future housing needs

Prospects for Germany closing the gap between the housing accomodation it needs and the amount of new apartments being built, look to be receding sharply following recent figures released by the country's Federal Statistics Office. ...... **See page 8**

Single-family homes - are they on the way out?

Increasing government restrictions on new-builds has seen them plummet Single-family homes used to be a much-lauded dream, so why is Germany now turning its back on them? **See page 17**

German residential rents continue to drive upwards

There is little doubt now that the near-absence of a functioning investment market for German residential housing is having an unpleasant side-effect for tenants - in that it is steadily pushing up the level of rents on new leases, **See Page 23**

"The banks are currently cherry-picking and are still acting extremely risk-sensitive. This is being felt above all by project developers, who are increasingly having to turn to alternative lenders to obtain financing,"

Timo Wagner, Debt Advisory, JLL Germany

capital originally earmarked for maintenance or refurbishment now has to be used for refinancing. Colliers estimates that the annual transaction volume is likely to be reduced by 5% to 15%. Despite this, it says it's not expecting a crash in transactions, or even large-scale distressed sales.

New report by JLL highlights lending retreat by big banks

A new report by **JLL** on lending against German property by twelve of the biggest banks shows their commitment volume in 2022 was down by 2% on the previous year, at €38.8bn.

Seven of the twelve banks granted fewer loans in 2022 than in 2021, with **Landesbank Baden-Württemberg (LBBW)** recording the most significant decline at three billion euros (down 42 percent). On the other hand, five banks also recorded an increase in new business, including **Landesbank Hessen-Thüringen (Helaba)** with growth of €1.2 billion to €4.0 billion (up 43%) and BayernLB with an increase of €1.3 billion to €6 billion (up 28%). The most active real estate financier in 2022 was once again **DZ Hyp**, which achieved a new business volume of 7.8 billion euros (minus five percent).

This year, the negative trend could continue. Seven banks, for example, expect a further decline in new business. Only two banks expect the volume of new business to increase compared with 2022, and **Hamburger Commercial Bank (HCOB)** sees new business in 2023 at a similar level to the previous year. Both DZ Hyp and Helaba did not provide a forecast for 2023 due to the current difficulty in assessing the market.

"The banks are currently cherry-picking and are still acting extremely risk-sensitive. This is being felt above all by project developers, who are increasingly having to turn to alternative lenders to obtain financing," says **Timo Wagner**, responsible for Debt Advisory at JLL Germany. Overall, however, there is sufficient liquidity on the market: "We are far from a credit crunch, but the price for liquidity is relatively high," stressed Wagner.

Still, apart from the fall in writing new business, the overall value of the twelve banks' loan portfolios rose by 5% to €289.9 billion (due to extensions). For 11 of the 12 banks, their loan book increased year-on-year; only at HCOB did it fall (by 2%).

As in the case of new business, **BayernLB** reported the largest increase in its loan portfolio. With a plus of €2.4 billion, it is thus just ahead of Helaba, where the volume increased by two billion euros to a total of €38.8 billion. This makes Helaba the country's second-largest real estate financier behind DZ Hyp (€42.7 billion).

Concerns about loan default risks

In addition to the figures on new business and loan portfolios, which are surveyed on a regular basis, banks were also asked about loan default risk and loan application volumes. When asked which factors currently have the greatest influence on credit default risk, a clear picture emerges: the majority of banks see the rise in interest rates as posing the greatest risks. In addition, three banks regard the loss of value of collateralised properties as a risk of loan default.

Seven of the banks surveyed claimed the risk of loan default has not changed in the course of the past year. Only two banks perceive an increased risk of loan default in the current market environment, while three provided no information.

GERMANY/HEALTHCARE REAL ESTATE

Healthcare sector prices expected to fall, market still unsettled

We reported in the last issue of REFIRE about the concerns that institutional investors have been having about the German healthcare sector, in particular the financial health of operators, several of whom have got into difficulties recently with a number filing for insolvency.

A new report, "*Investor Survey Healthcare Real Estate 2023*" by **Cushman & Wakefield**, nonetheless underlines the strong level of interest among investors in buying nursing homes, senior residences, rehabilitation clinics, medical centres and care centres. However, they ARE expecting purchases prices for those German healthcare property prices to fall in the short term and rents to rise in the short-to-medium term.

C&W surveyed 125 asset and investment managers, property developers, family offices, REITs and fund managers who are involved in

"The investor survey shows that most investors expect prices to fall in the short term, but they are divided about what will happen over the next five years. The focus is currently particularly on their own portfolio; energy-saving measures are the first choice for many in order to sustainably upgrade properties."

Jan-Bastian Knod, Head of Residential Advisory and Head of Healthcare Advisory, C&W

the German healthcare real estate market. In most cases respondents are usually investing as part of a diversified investment strategy, and many invest in healthcare and residential real estate, with senior living and ambulant care being the link between both asset classes.

According to **Jan-Bastian Knod**, head of both Residential Investment and Healthcare Advisory at C&W, "The investor survey shows that most investors expect prices to fall in the short term, but they are divided about what will happen over the next five years. The focus is currently particularly on their own portfolio; energy-saving measures are the first choice for many in order to sustainably upgrade properties."

Still, a majority or respondents expect an increase in rents over the near and medium term, with 40% forecasting an increase of up to 2.5% over the coming twelve months.

As to geographical preferences, medical centres and medical care centres are favoured in Germany BIG 7 cities, properties for assisted living are evenly distributed in A-,B-, and C-cities, while nursing homes are weighted in favour of B- and C-cities.

On project developments, 61% stated that would invest in development projects, or buy them, on the basis of a forward purchase deal, driven mainly by the ESG conformity of many new development projects.

Transaction volumes currently well down, market remains unsettled

These survey results could suggest to a reader of the full report that all is well within the German healthcare sector. But as we've reported, all is not that rosy. Transaction volumes seem to have collapsed by nearly 40%, according to **Savills**, while big operator names like **Convivo** and **Curata** have filed for insolvency, unsettling the market.

Continues on page 6

Charles Kingston, Editor

If Sam 'The Gravedancer' Zell were still invested in offices, we guess he'd have been selling a year ago

We still wonder at the exquisite timing of the deal. Apart from REFIRE and only about fifty others, not too many industry veterans can claim to have been there when, early in 2007, the legendary Sam 'The Gravedancer' Zell showed up on a panel in Frankfurt, along with some other US heavyweights, including Jeff Immelt, the head of General Electric Real Estate, a major real estate investor at that time, Wharton Professor Dr. Peter Linnemann, and the German CEO of Eurohypo, who were financing everything in that euphoric era.

Also on the panel was John Carrafiell, at the time the global co-head of Morgan Stanley real estate, who was hell-bent on buying up everything in Germany on the grounds that it was all available for far less than its replacement cost. This was a good opportunity to teach the Germans an Anglo-Saxon-style lesson in how to make money in real estate, intimated Carrafiell.

The Gravedancer pooh-poohed the Morgan Stanley approach, predicting it would prove very painful for investors in those Morgan Stanley funds, many of whose properties were half-empty at the time. Prices were much too frothy, said the Master of Timing, while the quality of many of the assets he'd observed riding in from the airport that morning left him unconvinced. Besides, he said, what was it going to cost to get those properties up to speed to fill them with new employees, and extract decent returns on the assets?

We did not know it then, but within a week Zell had signed a deal to sell the biggest owner of US offices, Equity Office Properties REIT, to Blackstone for $39bn, at the very top of the market. Blackstone were no fools. Within months they sold off large chunks of the huge portfolio, retaining only the choicest trophy assets. Having dumped the dross, Blackstone reckoned it tripled its investment on the remaining assets over the next ten years. The buyout of EOP is widely considered to be one of the most successful real estate private equity deals of all time.

Sam Zell died just a few weeks ago. We'll not forget what a magnetic character he was, and what sound instincts he had through most of his astonishing business career. Those Morgan Stanley funds, by the way, went on to lose their investors billions.

We suspect Zell would have been selling a year ago were he still involved in US offices. From across the pond, reports are accumulating of US banks taking real losses in selling *performing* property loans, in a stampede to get out of the sector ahead of a wave of delinquencies on debt secured against offices that nobody wants to work in any more. Keeping their books clean and avoiding extra scrutiny by regulators or investors is seen now by many banks as a priority, in advance of an almost certain wave of losses. Selling now, at a modest discount, is viewed as smart business. Loan brokers are reporting the highest activity in three years.

Among US developers, there are now numerous reports of office towers being sold for two-thirds of their recent valuations, as the reality of working from home and the new interest rate environment begins to sink in. These are pretty shocking markdowns - and these are not the second-grade properties that Zell included in his EOP mega-bundle for Blackstone, before they, in turn, quickly proceeded to pass the parcel.

Still, at least these sales represent the market trying to crank itself back into gear and find some sort of price level to lubricate the market. The Americans are always more pragmatic about this than the continental Europeans, who will faff around for years before accepting the reality of lower (often, much lower) valuations. For offices, the market is now sifting the real jewels from the less worthy stones. As in modern life, the top properties get to play in the Champions League, while large numbers of their erstwhile brethren will be destined for relegation to the lower divisions.

Across the board, we're already seeing a broad shift in emphasis from acquisition and deal-making to asset management, and reallocating resources to the most currently rewarding activities. Deutsche Bank's announcement this week that it is drastically slimming down its property lending operation with the loss of hundreds of jobs is a simple recognition of what lies ahead. And a timely signal to the industry at large.

With three separate lending entities, and €182bn in property loans outstanding, mainly to private borrowers in Germany, the bank is consolidating its property financing into one unit. New lending this year, in common with other banks, is already down by half on last year, is earning the bank lower margins, and is facing a wall of equity-related regulation on it lending practices. Future demand will be less for big swashbuckling prestige projects, and more for thousands of smaller loans related to domestic energy refurbishments, the installation of heat-pumps, insulation, and the like. With about a million existing borrowers on its books, the bank will be plenty busy meeting their needs.

Other banks are facing similar problems. While a major correction, which could have been expected to be triggered by COVID, was avoided - instead of which property prices roared ahead - the new interest rate environment is proving a game-changer. The lack of transactions has masked the real drop in office values, which will have to be recognised at some point. Sadly, rising rents in logistics and housing, along with the buzz generated by newer asset classes such as data centres and life sciences - won't be enough to cushion the blow of a transformed landscape when the office markets stutter back to life.

That's going to take time though, given the structural changes affecting how companies plan to use their offices. Much will depend on the availability of financing, although with levels of new underwriting by traditional lenders down at half last year's level, the signs aren't encouraging. We're seeing ominous rumblings here in Europe as well, such as Blackstone's recent default on a Finnish office portfolio, and its and KKR's imposition of limits on fund redemptions. These won't be the last. As in 2007, in advance of the storms to come, are Blackstone again just ahead of the chasing posse?

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From page 3

In the long run the arguments for investing in the sector, given the skewed nature of Germany's demographics, are compelling, in REFIRE's view. But investors' eyes have been opened to the vulnerability of their operators' management, on which they are dependent and to whom they are bound contractually for a very long period. They are also rattled by the belligerent tone of Health Minister **Karl Lauterbach**'s pronouncements about the undesirability of too close an involvement by the capital markets in Germany's generally well-reputed healthcare system.

The fundamentals for a market that is, in essence, a key component of Germany's social market economy and a vital ingredient in its social promise to provide adequate healthcare to its elder citizens, are good. Politics has been messing things up a bit, but German local government authorities are going to do their best to look after those in their care. It's a question of getting the right balance between in-patient and out-patient care.

A recent survey of 1,500 decision-makers by Hamburg-based project developer **Cureus** (and carried out by research institute **Civey**) demonstrated that more than 90% of these authorities recognised the need for more care capacity in their districts by 2040. According to Cureus CEO **Gerald Klinck**, 31% of respondents saw the greatest need in inpatient care, 43% in service living/assisted living, and 19% in day care facilities. In his view, this weighting is probably off-target, at the expense of inpatient care. He strongly believes municipal decision-makers have to do more to promote the building of nursing homes.

Klinck said, "Unfortunately, most municipal decision-makers seem to want to rely more on assisted living as a solution. This preference for care in one's own home is quite understandable from a human point of view, but: inpatient care is not a question of choice – for those who depend on it, assisted living is unfortunately no longer an alternative,"

The Cureus survey reinforces an earlier study by **Wüest Partner AG** in 2022, which also identified an increased need for care places in almost all districts by 2040. The demand in about half of all districts will be at least 20% higher than today's level, the study concluded.

A further study, by researchers **Bulwiengesa** in 2021, also showed that around 600,000 new inpatient care places will have to be built in Germany by 2040. Moreover, the occupancy rate of the available places in full inpatient care was already about 90% in 2021. In addition, the existing capacities are by no means secure. This is because 29% of

Gerald Klinck, CEO, Cureus GmbG

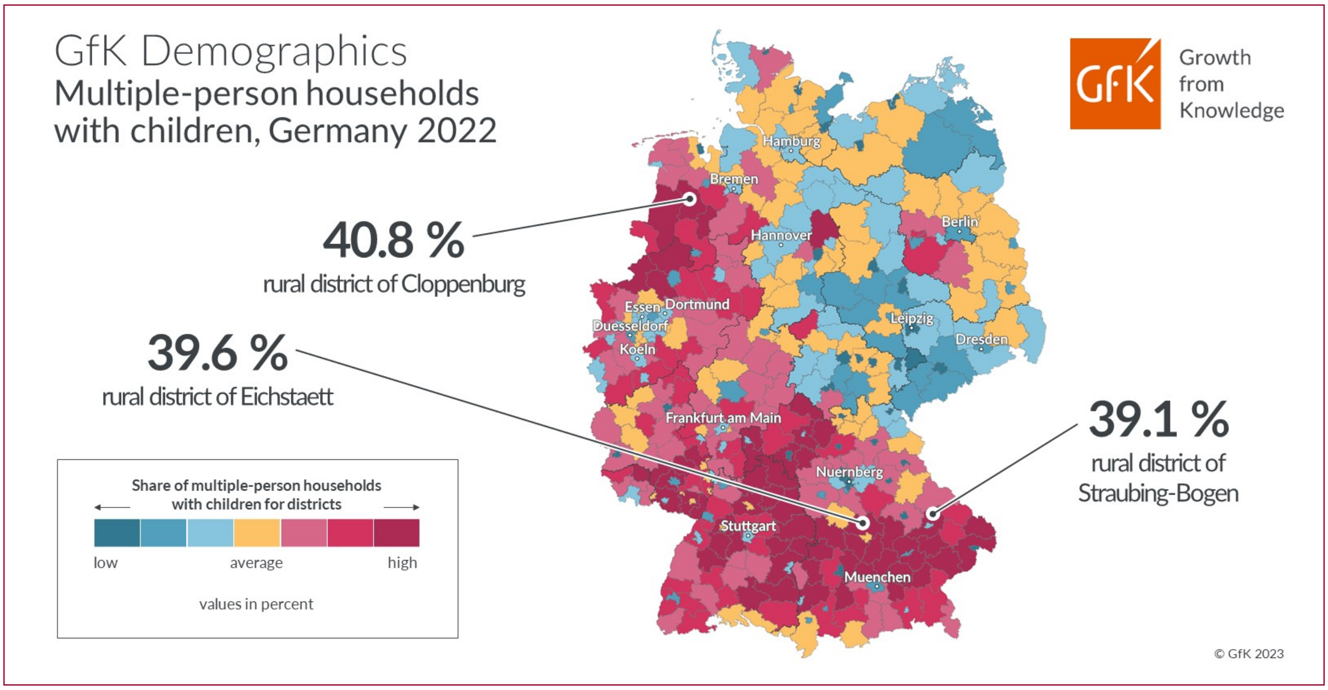

Illustration: GfK

the 15,400 nursing homes in Germany (data as of 2019) were already more than 40 years old in 2021 and a considerable number of them no longer meet the legal requirements or construction standards.

Klinck offered an interesting perspective as to why many of the municipal decision-makers had declared such a preference for assisted living in their prognoses. The current coalition government has declared its goal of 400,000 new apartments to be built every year (a goal it has so far woefully failed to come even close to). "Assisted living is statistically classified as housing construction. Municipalities may therefore hope to score points with appropriate housing both in terms of creating new living space and in terms of the care issue.

"But this is a dangerous fallacy, because today's baby boomer generation will hit our care system with full force. In 2040, there will be many more very old people than today. And statistically speaking, the need for care will increase disproportionately for people aged 80 and over. In addition, in times of scarce personnel and the singularisation of households, care is probably better bundled in one location and provided in-company with a colourful daily programme, rather than sending valuable care skills on an outpatient basis in a small car through traffic jams."

Klinck believes the building of more care homes is the best option. This is possible through the provision of municipal land, market-based investment cost rates for operators and by influencing state policy. The latter could, for example, provide local funding institutions with special programmes and ensure the long-term reliability of the regulatory framework.

In Klinck's view, federal policy should also be addressed in order to ensure an adequate volume of local funding, for example from the **KfW**, and reliable access to it in the long term, without ever increasing the technical demands on building owners. "All political levels must take measures to advance the construction of care homes as part of the social infrastructure of the future and to prevent the impending care catastrophe. This is the only way to attract more investors to this important market segment", he believes.

GERMANY/RESIDENTIAL

Collapse in building permits bodes ill for future housing needs

Prospects for Germany closing the gap between the housing accomodation it needs and the amount of new apartments being built, look to be receding sharply following recent figures released by the country's **Federal Statistics Office.**

These show the number of building permits issued in March fell by the highest amount in 16 years. Only 24,500 apartment building permits were issue, down 29.6% or 10.300 units on the same period a year ago.

A total of 68,700 permits for apartments were issued from January to March, 25.7% fewer than in the same period last year. The number of new building permits issued has been falling steadily since May of last year. The figures include approvals for apartments in new buildings as well as for new apartments in existing buildings.

The number of building permits for single-family homes slumped by an above-average 31.1% to 14,300 in March, while there was an even larger drop of 51.9% to 4100 for two-family homes. "The number of approved apartments also fell significantly for the building type with the highest numbers, multi-family homes," said the statistician, with this number down 25.2% to 37,200.

After 295,000 completions last year, industry estimates suggest that at best 250,000 apartments are likely to be completed across Germany this year. That number is sure to fall next year, with the gap to the estimated 700,000 new units required widening even further. Without a major shift in the government's approach to providing subsidies and incentives to build, the construction industry is "heading for a crash landing", said **Felix Pakleppa**, the head of the **German Construction Industry Federation**, this week.

Axel Gedaschko, the president of the Federal Association of German Housing and Real Estate Companies (**GdW**), said: "The consequences of the numerous cancellations under the current framework conditions will only take full effect in the next few years. The crash is looming and must be stopped urgently", he said.

Dirk Salewski, president of the Federal Association of Free Real Estate and Housing

"The crash is looming and must be stopped urgently"

Felix Pakleppa, head of the German Construction Industry Federation

Companies (**BFW**), warned: "Looking in the rearview mirror is deceptive. The supposed recovery reflects the situation before the crisis, because that's when the permits were issued. We'll see the real situation in the figures for 2023 and 2024."

GERMANY/RETAIL REAL ESTATE

Retail index GRAI suggests grass shoots recovery

We keep an eye on the **Global Retail Attractiveness Index (GRAI)**, managed by German fund giant **Union Investment**, which tracks retail market in 20 countries across Europe, North America and Asia-Pacific. While it's always tricky to call a market bottom, there have been some encouraging movements of the gauge in a number of the market the GRAI tracks, worth noting here.

In 6 of the 15 EU countries that are components of the GRAI, a positive trend was noted in Q1, compared to Q1 of last year, while losses were moderate in the others except for a few Nordic outliers.

Olaf Janßen, head of property research at Union Investment, said: "Positive trends across European labour markets and retail sales that have been improving for some time in all 15 countries indicate recovery, and a likely return to pre-pandemic levels in these markets."

With an index value of 100 points representing average performance, the retail index for Europe (EU 15) scored 111 points in Q1, unchanged since Q1 last year. But notably, there was an increase in the discrepancy first identified last autumn between highly negative sentiment among consumers and retailers on the one hand, and positive labour market data and inflation-driven sales on the other. Consumer sentiment (78 points) dropped sharply by 14 points, while retail sentiment (95 points) was down 12 points. However, the labour market rating (136 points, plus 9) and retail sales (133 points, plus 10) both improved.

In the EU-15 index, the biggest increases compared to Q1 2022 were seen in Italy, which climbed 7 points, and Poland, which added 6 points. Topping the country ranking were Poland (127 points) and the Czech Republic (122 points), followed by Portugal (116 points) and Germany (115 points). Next came France and Italy with 113 points each. The worst performers in Europe at the end of the first quarter of 2023 were Sweden and Denmark, with 83 and 86 points. The two Nordic countries also suffered the heaviest losses compared to the previous year, declining by 12 and 17 points respectively.

The GRAI is compiled every 6 months by market research group **GfK**, and is a combination of both sentiment and data-based indicators, reflecting both consumer confidence and business retail confidence. The index is based on the latest data from GfK, the European Commission, the OECD, Trading Economics, Eurostat and the respective national statistical offices.

German market contains investment losses

Meanwhile, the German investment market for retail real estate saw a relatively stable start in Q1, with transaction volumes down 9% to €1.7bn in the quarter, according to figures from **JLL**. That's 24% below its ten year average. In line with other asset classes, the number of transactions fell from 65 to 42 deals.

There were only two deals in the triple-digit millions - the pro rata acquisition of **KaDeWe** by the **Central Group**, and the increase in shares in various shopping centers by Deutsche Euroshop. But with a dearth of large transactions, these two deals made up more than half of the total volume in the quarter.

The dominance of these two deals also reflects the risk class and type of use across the deals done. Core accounted for 59% of the transaction volume, with core-plus accounting for 39%. Value-add made up only 2%.

In terms of types of use, department stores account for 49% of the market, ahead of retail products with specialist stores, retail parks and supermarkets, which together account for 22%, just ahead of shopping centers with a market share of 21%. Commercial buildings rounded off the field with 9%.

According to **Sarah Hoffmann**, head of retail investment at JLL Germany, "We're seeing robust demand in all types of use. For example, commercial buildings in prime locations are the focus of private investors, as the rental market here has proven particularly resilient despite

Sarah Hoffmann,
head of retail investment, JLL Germany

(...to page 11)

"Costs in the hotel industry have risen disproportionately, up 20% since 2019. These cost rises have been outstripping revenues, raising the question as to which operators are so strong financially that they can outlast the increasing drain on their resources."

Michael Lidl, Treugast

the pandemic challenges… At the same time, we're seeing high levels of interest in German core and core-plus products from foreign investors, particularly French investors."

Accordingly, yield increases are modest. Retail parks are up 25 basis points to 4.15%, while individual specialist outlets are up 20 basis points to 5.10%. Shopping centers, meanwhile, remain constant at 5.00%.

In the high-street sector, too, the increase amounts to a maximum of 30 basis points. This is accounted for by front-runner Munich, which continues to have the lowest prime yield at 3.00%, followed by Berlin (3.10%), Hamburg (3.30%), Frankfurt (3.40%) and Düsseldorf (3.50%). Stuttgart and Cologne complete the field at 3.70% each.

GERMANY/HOTELS

Hotel business recovers strongly, but investors remain on the sidelines

The annual **International Hotel Investment Forum (IHIF)** took place in Berlin recently, and the international non-European contingent was back in force, following a more domestically-accented attendance over the previous two years due to the COVID crisis. About 2,600 visitors attended, according to the organisers **Questex**, outnumbering the previous record attendance of 2019.

A series of presentations laid the performance numbers in the European hotel industry bare. The industry has now almost recovered from the COVID slump, with the key *RevPar* metric now at 113% of its 2019 value in nominal terms, according to **Robin Rossman**, CEO of data provider **STR**. Accounting for inflation, it is still 97% in real terms. Room rates have risen significantly, although occupancy is below pre-crisis levels, except in the budget segment. Germany is lagging the rest of Europe, with price-adjusted *RevPar* at only 91% of its pre-crisis level.

Michael Lidl of consultancy **Treugast** pointed out how costs in the hotel industry have risen disproportionately, up 20% since 2019. These cost rises have been outstripping revenues, he said, raising the question as to which operators are so strong financially that they can outlast the increasing drain on their resources. And **Ulf Templin**, the head of Germany at **PKF Hospitality**, raised the spectre of all the deferred rents from the COVID period that now have to be repaid out of current income.

The market is increasingly divided between the financially well-backed operators, and those who are struggling and will likely be swallowed up by the stronger players in their bid for growth. There is almost no new building going on at the moment, apart from pre-COVID commitments, so the more ambitious groups are looking at existing properties or smaller portfolios to expand.

Investors were very much in evidence at the convention, but mainly just looking and talking, not yet buying. Less than a hundred hotels were sold in European transactions in this year's first quarter, fewer than in the first Corona lockdown, according to **Carine Bonnejean** of **Christie + Co**. Almost none of these were distress sales, she said, but with many asset portfolios up for refinancing this year and next, that situation could change soon enough. **Andreas Locher**, head of investment management hospitality at one of the more active buyers, Union Investment, said his group was very conscious of the higher returns available in asset classes such as infrastructure, or even government bonds, in the current interest rate environment.

In Germany, what WILL investors be looking at this year? According to **René Schappner**, head of hotels at **Colliers Germany**, "In 2022, portfolio transaction activity was almost completely absent in an already difficult environment, at around €275 million, marking a low in both relative and absolute terms," (The record volume dating back to 2016, with €2.4 billion in portfolio transactions alone, still holds.)

Schappner says that investors are starting to eye new sub-sectors, including boarding houses and serviced apartments. In 2020, the share of this type of accommodation suddenly shot up from less than 3% to more than 8%. Since 2017, the investment volume has consistently exceeded the €100 million mark, in some cases also very significantly, and, in some years, even the €200 million mark: 'The success and especially the crisis resistance are a big plus and make this sub-segment increasingly attractive for investors,' Schnappner said. 'In recent years, more transactions have been concluded

Andreas Locher, head of investment management Hospitality, Union Investment

" Investors are starting to eye new sub-sectors, including boarding houses and serviced apartments."

- ReneSchappner, Head of Hotels, Colliers Germany

Continues on page 14

LOGISTICS PROPERTY MARKET GERMANY: RENTAL PRICES 2022

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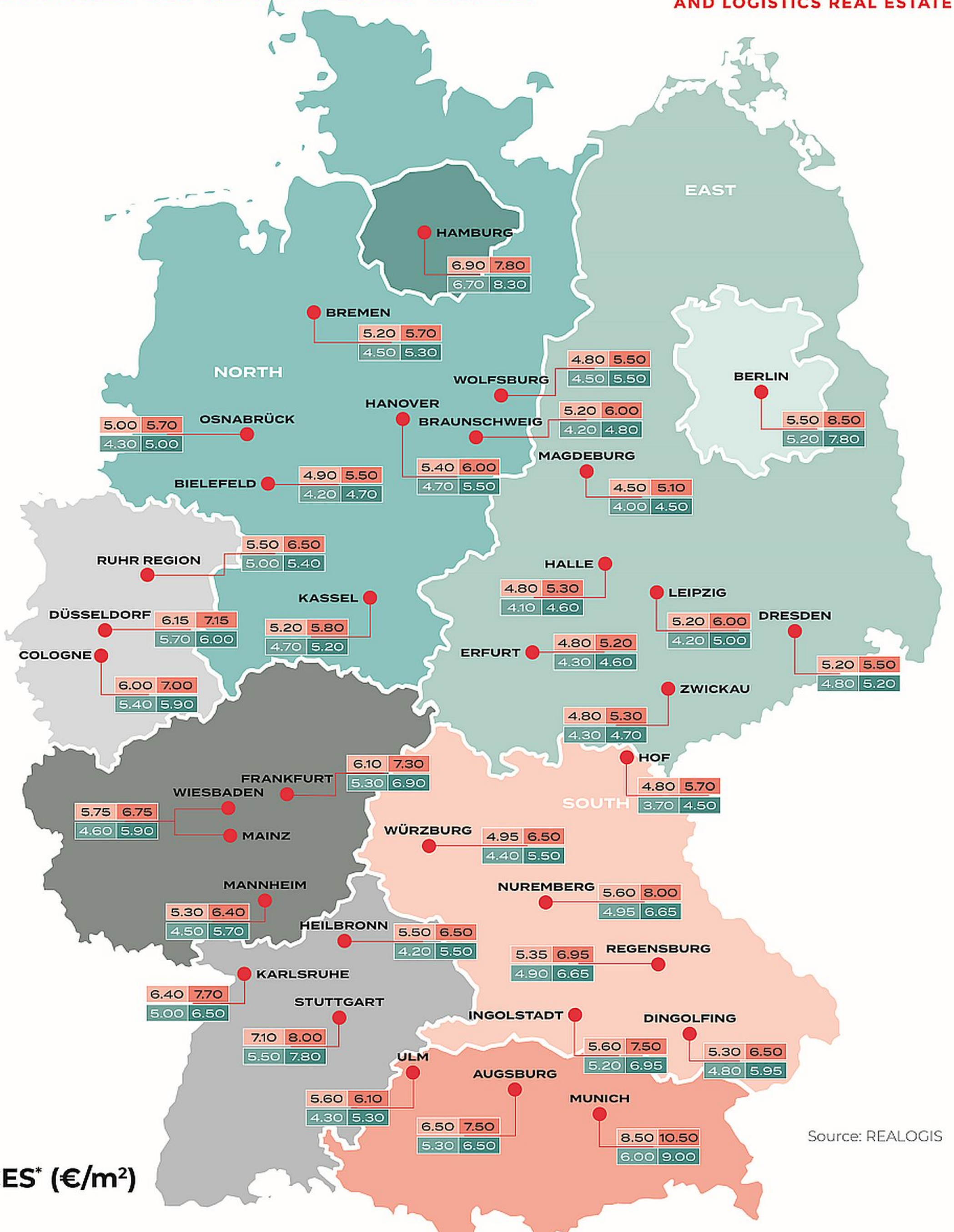

RENTAL PRICES* (€/m²)

from | to **New properties**

High-quality logistics properties with the following characteristics: min. 10.00 m hall height, large delivery area and at least 1-2 gates per 1,000 sqm of hall space, efficient heating system, sprinkler

from | to **Functional buildings**

Functional buildings with the following characteristics: min. 7.50 m hall height, ramps and/or ground-level loading area, large delivery area, heating

The map can be printed free of charge citing the source: "Realogis – www.realogis.de".
Latest figures can be obtained from our research department at any time and can also be found on our website.
* Prices refer exclusively to logistics space (warehouse space)

www.realogis.de

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Causing Major Economic Damage without Helping the Climate

Germany is making a huge effort to become carbon-neutral. The real estate industry is playing a significant part in it as well. The problem being: It is hardly enough to focus on Germany or Europe alone. Evidence-based analyses have indicated that the only effect of carbon neutrality in Europe will be a global increase in the consumption of fossil fuels. It is of the essence therefore to find global solutions. However, the sciences have not yet presented any plausible concepts toward this end.

Francesco Fedele
CEO, BF.direkt AG

Prof. Dr. Steffen Sebastian
IREBS

The minor reenactment of Germany's Building Energy Act (GEG) is currently a much discussed topic, and not just in the real estate industry. We therefore decided to skip our usual round-up of interest rate and inflation news because we believe that key aspects are missing in the debate about the climate policy reversal. The initiative by the Federal Ministry for Economic Affairs and Climate Action actually came as no surprise. It was foreseeable that the buildings sector would have to make a much more substantial contribution to help Germany achieve its climate targets. And if the German building stock is really supposed to be carbon neutral by 2045 or 2050, it is high time we had a plan how to get there. That is not the same as saying that the current plan holds water. But it is principally to be welcomed that Robert Habeck, the Federal Minister of Economic Affairs, is spelling out what exactly is expected from building owners.

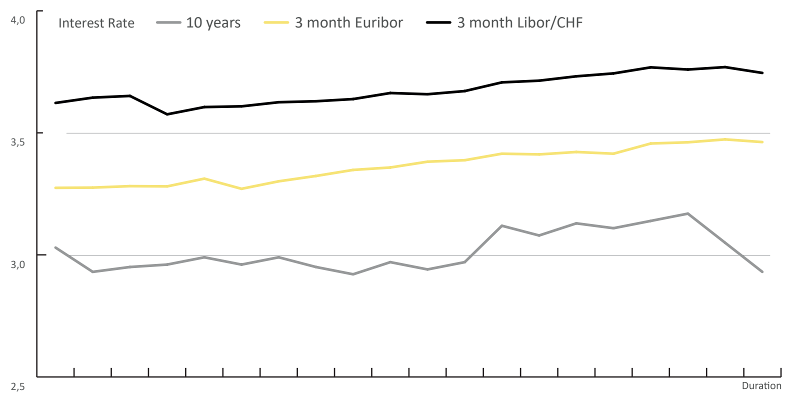
Regrettably, the discussion is very emotional. Essential scientific insights are also being neglected. The debate is more or less limited to arguments inspired by the natural sciences and engineering technology. Fundamental insights from the field of economics, by contrast, are being ignored. We do not doubt that the ongoing climate change is man-made. Accordingly, we embrace the conclusion that everything humanly possible should be done to avert a climate change. To accomplish this, even a potential damage to the German economy would principally be an acceptable risk. Our concern, however, is that the current political efforts will only do significant economic harm, especially in Germany, without mitigating the climate threat.

What we find fault with is not so much the tool kit used but essentially the principal objective of seeking carbon neutrality for Germany or Europe. As far as the tool kit goes, the body politic appears to have grasped that quantity-based CO2 certificate trading is principally the superior instrument. If all major emitters join in, and if the amount of greenhouse gases is reduced year after year, then the cutting of CO2 emissions is likely to start wherever doing so is least costly.

If Germany or indeed all of Europe weaned itself off oil and gas, the short-term effect would be an erosion of oil and gas prices on the international markets. This in turn would result in heightened demand in all those countries that either cannot afford to seek carbon neutrality or that fail to see the point. For some time, there have been evidence-based analyses demonstrating that our efforts toward carbon neutrality effectively drive up the global use of fossil fuels even further.

We do not dispute the need to end the consumption of fossil fuels in Germany within the scope of a global solution. But without having any measures in place to ensure that both supply and demand are downscaled internationally, our efforts will at worst boil down to a very expensive subsidisation of fossil fuel consumption in other countries.

Market development May 2023



'Traditional asset classes have been less in demand than they used to be, whereas some of the former niche segments, such as light industrial or real estate with public tenants and alternative use potential, seem to have become more and more attractive lately situation."

Dr. Sven Helmer, managing director, Lagrange

From page 12

in this segment. The economic success has also had a positive impact on the creditworthiness of the operators. Institutional investors are increasingly active in this segment.'

Heidi Schmidtke, managing director for Hotels & Hospitality at JLL, agrees: 'With serviced apartments, we have a few things to watch,' she said. 'Even before COVID, serviced apartments were becoming popular because of their efficiency and because they're close to residential assets, which makes some investors think they're easier. And, once something becomes acquired by institutional investors in our region, everyone starts to look, it's interesting, like **LaSalle** investing in **Numa**. Serviced apartment operators aren't just looking at the Big 6, they're also going into secondary and tertiary locations. They can easily flip into a retail redevelopment, that's definitely something to watch going forward.

'I was in London last week and we were discussing a big portfolio of department stores with the owners. The new concept could be transforming empty stores into spaces with a serviced apartment component and/or budget hotel. Some department stores are so sad to watch, this could bring the city centre back to life.'

Another asset class gaining in popularity is 3-star hotels, according to Schappner: 'Due to the lean cost structure and high quality of overnight stays, coupled with very central locations, this hotel category remains an integral part of the overall market,' he said. 'Operators have come through the pandemic economically well and continue to search for locations, and investors see sustainable investment opportunities in these concepts.'

GERMANY/SPECIAL FUNDS

AIFs gaining in popularity as investors seek 'to exploit specific opportunities'

A desire 'to exploit specific opportunities' in real estate has become the main driver for investing in real estate special AIFs, according to **Lagrange's** sixth **Fund Monitor 1H/2023** conducted with **INVESTMENTexpo**.

Almost 40% of respondents cited that as their main goal, with an additional 33% citing diversification. Inflation hedging is quoted by 20% of the respondents as their main motive. However, German institutional investors, are now planning to expand their real estate portfolio shares at a slower pace than was assumed in late-2022. Acquiring shares in real estate special AIFs on the secondary market is becoming a more viable alternative to direct investments in these institutional funds, according to the survey.

'On the whole, institutional investors principally take a bright view of institutional real estate funds, although a closer look at the preferred asset classes and target markets reveals growing differentiation,' said **Dr. Sven Helmer**, managing director of Lagrange. 'Traditional asset classes have been less in demand than they used to be, whereas some of the former niche segments, such as light industrial or real estate with public tenants and alternative use potential, seem to have become more and more attractive lately. While inflation definitely drives higher real estate allocations, interest rate changes have clearly less influence on the allocation. Moreover, buying or selling fund shares on the secondary market is increasingly becoming an alternative to the primary market.' The polled institutional investors largely constitute insurance companies, banks, pension funds and pensions schemes.

Predictably, risk tolerance remains low, with core-plus and core investments accounting for 44% of investment, down just 1% on the second half of last year. Core investments came in second with 33%, down from 35%. Combined, these asset classes accounted for more than 75%, compared to value-add with 19% and opportunistic assets with just 5%.

Is food retail losing its lustre?

Residential and offices are the preferred asset classes, albeit less in demand than in late-2022 and there is waning interest in food retail and logistics, according to the survey. Interest in retail with a food share of 70% or more, which used to be very much sought after, has declined markedly to just 8% of the named preferences (2H 2022: 15%). While all four of the traditional asset classes suffered either a modest or noticeable slump in investor interest, two asset classes that used to be considered niches have become more mainstream, including light industrial, with 10% (2H 2022: 8%), just behind

Heidi Schmidtke, managing director, Hotels & Hospitality, JLL

...continues on page 15

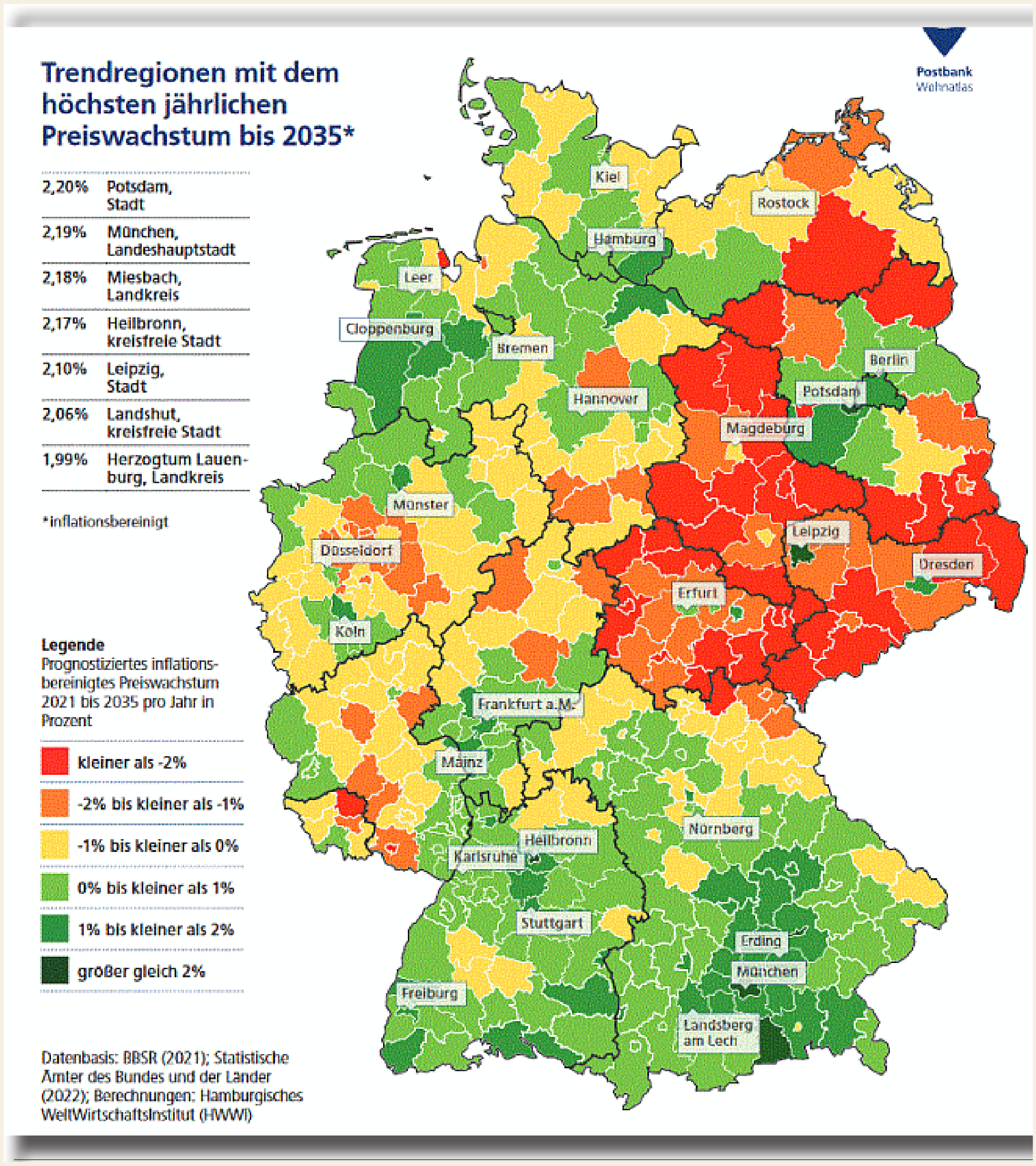
From page 14

logistics. The other represents assets with public-sector tenants, including municipal administrative buildings with alternative use potential (8%) and health care/senior living (7%), which are also generating significantly more interest than before.

Germany retained its lead position after being named by 17% of respondents, although the ranking of foreign markets was reshuffled. The US is the leading foreign market, with 13%, trailed by Canada and Austria, which hit a new high of 12%. The Benelux region took just 9% of the vote, with the UK accounting for a paltry 3%.

The biggest challenge that respondents face when investing in real estate special AIFs are high property prices and low cap rates, which were named by 37% (2H 2022: 13%). The second biggest challenge at the moment, according to 27% of respondents, is financing real estate investments (2H 2022: 20%). This contrasts with the risk of falling prices and rents, which presents a challenge for 17% of respondents (2H 2022: 40%) and was level with the challenge of a lack of suitable properties (2H 2022: 27%).

Continues on page 18



from Page 16

Interest rate hikes not affecting majority of allocations

When asked about their inclination to buy shares in real estate special AIFs on the secondary market, respondents returned an average score of 6.51 points. Here, a score of 1 would indicate a complete lack of interest, whereas a score of 11 would signal a very keen interest. With a score of 6.44 points, respondents were more interested than ever before in the option to sell shares on the secondary market (2H 2022: 6.13 points). At the same time, the gap between the number of those interested in buying and those wishing to sell has visibly narrowed.

As far as allocation adjustments due to inflation go, there was virtually no difference between the short and medium-term outlook. In either case, roughly two out of five respondents would not rule out an increase in their real estate special AIF allocations, whereas three out of five are not planning any changes. Due to the interest rate development, about 20% of respondents intend to reduce their real estate special AIF allocation both in the short and medium term, whereas, interestingly, interest rate hikes will not influence the allocations of the other 80% of investors.

GERMANY/RESIDENTIAL

Single-family homes: are they on the way out?

Increasing government restrictions on new-builds has seen them plummet Single-family homes used to be a much-lauded dream, so why is Germany now turning its back on them?

In the past ten years, around 85,000 single-family homes were built per year in Germany. However, due to the pandemic, sharply rising material and energy costs, more expensive financing and a lack of construction and craft capacities, the numbers are now falling. According to the **Federal Statistical Office**, 77,000 single-family houses were completed in 2022, a drop of 1.5% compared to the previous year, and this year, that figure is likely to fall yet further.

It's a highly emotional story in Germany: for 64% of the population, single-family homes are still the most popular type of home, irrespective of political and environmental debates, according to the '*Wohntraumstudie 2022 (Dream Home Study 2022)*' by **Interhyp AG**, a German broker of private construction financing.

So why are single-family homes losing their shine? One issue is that increasing restrictions on the designation of building land is increasing the pressure on single-family homes. High land consumption and poorer climate balance is why hardly any single-family houses are to be built in Münster going forward, suggesting that this way of living could become an outdated model. There will also be fewer semi-detached houses and terraced houses, as the council majority of the Greens, SPD and Volt parties has now decided, because they take up a lot of space and their carbon footprint is worse than that of apartment buildings.

Similar debates are now raging in many German cities. In the north of Hamburg, for example, no more new building sites for detached single-family houses have been allocated since 2021, and other urban areas could follow. The districts of Fuhlsbüttel and Langenhorn in Hamburg also imposed more stringent restrictions in 2020, which limited the number of permits that were granted to build single-family homes.

Sharp decline in single-and two-family homes

As a result, the number of single-and two-family homes being built is declining sharply. Last year, just 75,000 dwellings in new single- and two-family buildings were built, a huge drop from the 106,000 units constructed in 2021. A downward trend is expected this year, in light of escalating construction costs. Around 65,000 completions are forecast for 2025, 20% less that the all-time low.

However, not everyone agrees that such buildings should be abolished. The CDU's Economic Council has warned against a nationwide implementation of such a building ban on single-family houses over fears that it could become a blueprint for other cities. For now, other cities are pushing ahead with similar measures. Wiesbaden is currently discussing a building land resolution that provides for a minimum housing density per hectare, which would essentially put the kibosh on new single-family homes and also semi-detached and terraced houses. This

David Rouven Möcker, Partner, Head of Real Estate Consulting, PwC Germany

Continues on page 20

From page 18

is because the strict rules on housing density – specifying 80 dwellings per hectare of land - can only be met if apartments are built.

Even the German political parties can't agree on what is becoming an increasingly sensitive matter. **Christina-Johanne Schröder**, responsible for housing and construction in the Green parliamentary group, highlights limited resources: 'Nobody wants to ban the dream of living in a single-family house', adding that the key issue is the renovation, addition of storeys and conversion of existing buildings 'in order to create living space in an economically and ecologically sensible way'.

Jan-Marco Luczak, spokesperson on building policy for the CDU/CSU parliamentary group, takes a fundamentally different view, disagreeing with the Minister of Building Klara Geywitz's view that single-family houses are 'ecological madness at every opportunity'. On the contrary, he maintains that a home of one's own is 'freedom in action, good old-age provision and makes one independent of rising rents'.

Predictably, the FDP sits somewhere between the two. Spokesman on building and housing policy for the FDP parliamentary group, **Daniel Föst**, says that the ecological balance of new buildings is not as bad as is often claimed. He maintains that most of them are prefabricated houses made of wood and brick and, as plus-energy houses, many of them are still 'small energy centres'.

Will supersizing be replaced by downsizing?

Nonetheless, given that the energy crisis has caused prices for gas, electricity and consumables to skyrocket, the burning question is: how do our homes have to be set up so that we live in a way that conserves resources?

Smaller, energy-efficient homes will need to be the way forward. However, Germans have been supersizing their homes for decades, so the idea of downsizing to apartments – or never upsizing from them – is not going to sit well with many people. Around 30 years ago, the average living space per inhabitant was 34.9 square metres - today, that has swelled to 47.7 square metres. Moreover, there is an ever-increasing number of single households, so smaller apartments make demographic sense.

With rising interest rates - interest rates for new mortgage loans in Germany climbed from 1.4% to 3.6% in 2022 - single-family homes also make less economic sense. However, the government's goal of building 400,000 new flats per year is woefully behind schedule. The **German Federation of Construction Industries**

Christina-Johanne Schröder, Green parliamentary group

'I think there will be more activity to be seen on the portfolio side once financing conditions improve or at least stabilize, which we hope will be around the third quarter. The German hotel transaction market lacked momentum at the beginning of the year because the last quarter of 2022 was already quite quiet across all asset classes'

Heidi Schmidtke, managing director, Hotels & Hospitality, JLL

estimates that around 275,000 apartments were built in 2022, 18,000 fewer than the previous year. Its outlook for this year is even worse, with only 250,000 units forecast. That's based on a dramatic drop in granted building permits of over 16% in November 2022 alone. For most of the year, Germany had recorded a 5.7% drop in building permits.

Also compounding the problem is that cancellations in residential construction have continued to rise, finds an ifo Institute survey in April, with 16% of companies reporting cancelled orders. That represents an increase from 14.3% in February and 13.6% in January. 'The situation in residential construction continues to deteriorate,' said ifo researcher Felix Leiss. 'Due to the rapid rise in construction costs and higher financing interest rates, many housing projects are no longer profitable, have been postponed, or are being cancelled altogether. New business is literally collapsing and the industry has grave concerns about its future.'

GERMANY/RESIDENTIAL

Buyers flock to 'Speckgürtel' as city centres become increasingly unaffordable

As interest rates continue to rise and homes in the city centre become increasingly unaffordable, more and more people are flocking to the "*Speckgürtel*", or countryside.

According to a new study by the **Allensbach Institute** and the **IW** on behalf of the **Sparda** banks, consumers can save more than a third of the purchase price when buying a house or apartment in the countryside instead of the city. The average price per square metre for a home in the city is €4,180 compared to just €2,806 in the countryside, according to the study. Overall, prices per square metre in cities, metropolitan areas and in the countryside have risen by an average of more than one fifth in the past two years and the gap between cheap and expensive regions is widening.

'In all of the Top 7 cities, more people work than live there,' said **Jan Grade**, managing director of housing analysis consultancy **Empirica Regio**. 'The cities continue to be strongly intertwined with the surrounding areas but the surrounding areas are becoming more important as places to work and, due to scarce living space and high prices, as places to live.'

Home office workers leading moving charge

In addition, COVID has also changed the way we all work and with more of us than ever working from home, location has become less important. According to a recent study of 12,000 people by the real estate portal **Immowelt** and the **Ifo Institute**, 10% of city dwellers plan to move elsewhere, with 40% saying they'd like to move to a smaller city and 22% choosing to move to the suburbs. Since the beginning of the Corona crisis, 14% of part or full-time employed city dwellers have moved away, a figure that rises to 24% for home office workers.

'Since the Corona pandemic, we have observed on our platform that the demand for housing is increasing both in the metropolitan areas and in other rural areas,' said **Dr. Gesa Crockford**, managing director of **ImmoScout24**. The desire is clearly more pronounced among men (62%) than amongst women (53%).

Subsequently, rural areas with good public transport links and motorway access are booming, according to real estate economist **Pekka Sagner** of the **Institut der Deutschen Wirtschaft** (**IW**). As a result, all of Germany's Big 7 cities are seeing people in the 30-50 age bracket move away, particularly from Frankfurt, Stuttgart, Munich and Cologne. One good example of this is the Berlin hinterland, such as the district of Dahme-Spreewald, which borders directly on the capital, and which has become a popular place to relocate to. Young people under 30, on the other hand, continue to be drawn to large cities and university towns such as Munich and Berlin, but also Regensburg, Leipzig and Erlangen.

The growing trend to move to the countryside is backed up by other recent studies, with a commute deemed a fair trade off for more affordable living quarters, the prospect of having one's own garden and nature on the doorstep. In fact, 57% of the population have already thought about moving from the city to the countryside according to a recent online

Jan Grade, managing director, Empirica Regio

Continues on page 20

'In Germany, there are an estimated 1.7 million empty homes,' said Klara Geywitz. 'The majority of these homes are in rural regions.' The government is planning, among other things, to improve local public transport to create better transport links to rural communities.

From page 21

survey conducted by **Innofact** on behalf of the brokerage portal ImmoScout24. Moreover, 65% of the 30 to 39 age group are considering such a move, according to the survey.

Understandably, lower housing costs are a decisive factor for 54%. Just under half (41%) of those surveyed cited environmental concerns, such as fewer car emissions, as an argument for moving to the countryside. According to the Innofact survey, 57% of those surveyed are also prepared to accept longer journeys and commutes to work.

'The **Deutschland-Ticket** for local public transport offers many people the opportunity to commute to work in the city at a lower cost than before,' Crockford said.

Housing shortage in the cities versus close to 2 million empty homes in the countryside

However, people are increasingly being forced to widen their search radius and leave the cities, according to Crockford. The average asking rent for an existing apartment in Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart is €13.51 per square metre, according to ImmoScout24, whereas the national average is considerably lower at €8.01. For an apartment totalling 70 square metres, this equates to a significant saving of €385 per month.

Nonetheless, more needs to be done at a federal level to entice people to give up city life. Federal Minister for Building **Klara Geywitz** (SPD) is keen to encourage more people to move to the countryside in order to alleviate the housing shortage in the cities, as she told the **Funke Mediengruppe**: 'In Germany, there are an estimated 1.7 million empty homes,' she said. 'The majority of these homes are in rural regions.' The government is planning, among other things, to improve local public transport to create better transport links to rural communities.

Unsurprisingly, prices in the surrounding areas of six of the seven metropolises have risen more strongly since 2017 than in the cities themselves, particularly in the areas outside Berlin and Hamburg. According to the Allensbach Institute and the IW study, moving from the metropolis to the surrounding area is particularly worthwhile in Düsseldorf, Frankfurt and Hamburg, where buying property in the suburbs is still 40% to 45% cheaper than in the city. In the suburbs of Berlin and Cologne, prices are around a third cheaper than in the city centre. Around Stuttgart and Munich, on the other hand, houses and apartments are now so expensive that you save less than a fifth.

So what is the cost of buying an average home? Typically, it is in the region of €388,000, although the amount of space you get for that varies enormously from a 44 square metres for an apartment in Munich to a 450 square metre house in the *Kyffhäuserkreis* in Thuringia. None of the seven metropolises offers more than 90 square metres of living space at that price point, the most being in Cologne with around 81 square metres. On average, buyers take out a mortgage for €328,000 to finance their purchase, putting down €60,000 of their own capital, or 15% of the total purchase price.

Home ownership stagnating in Germany

Around 48% of the population live in their own home. According to the Allensbach Institute and the IW study, this is strongly related to monthly income and also the size of the city in which one lives but homeownership in Germany has been stagnating for the past 12 years, making it one of the lowest levels in Europe. Interestingly, just 12% of those surveyed have seriously considered buying their own home in the last two-to-three years, just 8% have actually bought their own home in the same period and a whopping 75% of respondents weren't interested.

German residential platform Immobilienscout24 has delved a little deeper to compare the purchase and rental prices in the centres of Germany's seven largest cities with those in their surrounding areas, investigating how much cheaper it is to live 15 to 30, 50, 75 and 100 kilometres away from the city centre.

Take the example of Cologne, where they note that you can save up to 60% on the purchase price if you live between 50 and 100 kilometres from the city. In the *Siegerland* region, for example, the average price per square metre is just over €2,000. One reason for the disparity is that Cologne is the only one of the metropolises surveyed where purchase prices in the city have risen more strongly than in the surrounding area since 2019. At €8.64 per square metre, rents outside are around 23% cheaper on aver-

The €49,- monthly Deutschland Ticket

About 450 - 500 million tonnes of CDW are generated annually in the EU. It contains all the waste produced by the construction and demolition of buildings and infrastructure, as well as road maintenance. Technology for separation and recovery of construction and demolition waste is well established, readily accessible and generally inexpensive.

age than in the city itself.

More and more people are willing to take on longer commutes of an hour or more, according to Grade, who points out that in addition to opportunities, the urban exodus also inflicts 'growing pains' on the surrounding communities, including an increase in traffic and a higher demand for land upon which to build. In addition, rural areas need to increase the supply of day-care centres and schools and expand public transport links and the energy supply.

And rural life is not for everyone: 'Those who move to the suburbs should be prepared for the fact that prices there can be significantly more volatile than in the metropolis,' warned **David Schmitt**, a managing director at **Engel & Völkers**. According to a survey, 42% of rural property buyers struggled with their decision in the first year due to restrictions in the three Cs: social contacts, culture and consumption.

GERMANY/PROJECT DEVELOPMENT

As construction costs rise, recycled development is moving out of the shadows

As construction costs escalate and sustainable development becomes a no-brainer, recycling - and circular construction - are taking on a new significance.

Circular construction strives for an efficient and effective use of resources, with a view to creating or at least maintaining economic, social and ecological value. As resources become more scarce, the importance of creating buildings with recycled and recyclable components has never been higher.

However, if you want to build a new building with reused materials, you face three major hurdles: how to find the materials in an appropriate condition and sufficient quantity, how to be sure that these reused materials will meet all the technical and engineering demands of contemporary building standards and, perhaps most difficult of all, how to find a builder who is willing to use these unconventional materials.

That's not to say it can't be done. Germany's first recycled house was built in Hanover in 2019. The architects came up with creative solutions to reuse as many materials as possible, including radiators, stairs and several walls consisting of sauna benches. The façade insulation is made of recycled jute sacks for cocoa beans, with the windows coming from a former youth club. The project planning took three years, due to the time-consuming search for recyclable building materials and firms that were able to install the recycled material. Nonetheless, it set an important new standard, proving how different materials can be reused in new buildings.

These obstacles are part of the reason why recycling has not become a bigger part of sustainable building, although that is now starting to change. The recycled house in Hanover got underway in 2015 when local real estate and construction company Gundlach decided to try and build a 100% recyclable house. The concept of the local architecture office cityfoerster was to construct a house entirely of recycled and recyclable components. For example, the gluing together of elements was avoided, so that all components and materials could be dismantled and reused in the future.

Construction and demolition waste accounts for more than a third of all waste generated in EU

It is easy to see the appeal of recycling in construction, also in a broader context: according to **Interreg Europe**, a platform that brings people together to share innovative and sustainable solutions to regional development challenges, construction and demolition waste (CDW) accounts for more than a third (35%) of all waste generated in the EU. It contains a wide variety of materials, such as concrete, bricks, wood, glass, metals and plastic, including hazardous materials like asbestos.

About 450 – 500 million tonnes of CDW are generated annually in the EU. It contains all the waste produced by the construction and demolition of buildings and infrastructure, as well as road maintenance. Technology for separation and recovery of construction and demolition waste is well established, readily accessible and generally inexpensive. Nevertheless, the level of recycling and material recovery of construction and demolition waste varies greatly across the EU, ranging from less than 10% to over 90%.

Developers are getting in on the act. In Munich, developer **GWG Städtische Wohnungsgesellschaft München**

Recycled house in Hanover, built in 2019

Another building material that is increasingly being recycled is aluminium - the most commonly used metal on earth, according to the Council for Aluminium in Building. As with cement, the production of aluminium is also very energy-intensive, yet recycling it requires 95% less energy than its original production.

announced earlier this month that it wants to repurpose elements of apartment buildings set for demolition across 900 new apartments being built or in other projects.

However, to do this, a material flow analysis is needed, which essentially tracks the path of a material from its extraction to processing, to its reuse or eventual disposal. This enables GWG 'to assess which components we can reuse in our own new building projects, which materials are suitable for a building materials exchange and whether it even makes sense to take them back from the manufacturer', according to **Rositsa Doneva**, team leader for climate protection at GWG.

Epea, a consulting firm specialising in the circular economy, has been tasked in cataloguing door frames, window glass, metal, wood and also waste bins, among other things, and identified possibilities for reuse: 'As long as they do not contain any harmful substances, almost all building materials can be reused or at least recycled to a higher value,' said **Andrea Heil**, an expert in recyclable building at Epea.

For its part, GWG has ambitious plans for 2023, announcing last month that its goal is to complete around 1100 new flats, commercial units with different uses and social facilities this year. In addition to the new construction, it is engaged in 24 modernisations of existing stock. The guiding principle is to implement a sustainable and energetically high-quality construction method in combination with special forms of housing, mobility stations for the GWG tenants and infrastructure measures.

'I am very pleased about the high new construction figures of our municipal subsidiary GWG München,' said **Verena Dietl**, chairwoman of the Supervisory Board of GWG München and Mayor of the **City of Munich**. 'As a housing company, GWG stands for a socially just Munich that is also committed to implementing sustainability issues for the future and the next generations.'

For developers who have been squeezed by rising construction costs, recycling makes economic sense. According to Epea, it costs around €400 to dispose of a five-cubic-metre container with mixed construction waste, whereas selling it actually generates income. Similarly, tiles can typically be sold for around 50 cents each, processed concrete rubble is worth €8.50 per cubic metre, and a kilo of scrap steel is worth about 20 to 30 cents, according to Epea. As such, raw materials used in buildings, roads and civil engineering in Germany likely add up to 29 billion tonnes.

Another building material that is increasingly being recycled is aluminium - the most commonly used metal on earth, according to the **Council for Aluminium in Building**. As with cement, the production of aluminium is also very energy-intensive, yet recycling it requires 95% less energy than its original production. Something else that can easily be recycled is broken bricks: 'With the help of our recycling plant at the Puttenhausen site, we have now been able to recycle more than 5,000 tonnes of broken bricks,' said **Thomas Bader**, head of the building materials manufacturer **Leipfinger-Bader**. Start-ups are also muscling in. The Swiss company **Holcim** is working with the start-up **Neustark**, which has developed a process to bind CO_2 in the production of recycled concrete.

In 2013, four founders launched **Restado**, the first online marketplace for reclaimed building materials. Restado's findings led to the launch of **Concular**, a platform for circular construction, in 2020. The platform records used building materials and its database is used by architecture firms, construction companies or developers who want to reduce the carbon footprint of their buildings with recycled materials, but also by manufacturers who recycle their building materials, according to **Dominik Campanella**, co-founder of Concular: 'In order to establish circular value chains, we network local deconstruction companies, testing centres as well as project and architecture offices.'

Government to launch building resource passport

However, in order to preserve recycled materials and their value, the relevant data must be recorded and documented, not only in new buildings but also in existing ones. In its coalition agreement, the federal government has stipulated the introduction of a building resource passport. This does not yet exist, but in addition to Epea, the **German Sustainable Building Council (DGNB)** has developed such a digital product.

Over in Gehlberg, **Polycare** is developing innovative construction technology that makes sustainable habitats affordable with its CO2-re-

Verena Dietl, Mayor of Munich

duced modular construction system poly-blocks. Polycare's aim is to replace concrete as far as possible because it releases so much CO2 in the production of its key component, clinker, that it is responsible for 8% of the world's carbon dioxide emissions, making it one of the reasons why the building sector is breaking its climate protection targets year after year. At the same time, entrepreneurs were looking for a way to reuse existing building materials instead of sending them to landfill. Poly-blocks look like very large play bricks, consisting of a shell nestled around a filling of demolition bricks, replacing the binder cement with polyester resin: 'This creates a material that is even stronger than concrete,' according to Polycare CTO **Robert Rösler**.

And while recycling in commercial construction is a relatively new trend, moves are afoot to make it easier to recycle materials such as concrete, bricks, tiles and ceramics, which will no longer be considered waste if they are recycled during construction. The Federal **Ministry for the Environment** is preparing a separate legal regulation whereby mining-grade building materials will be given product status.

The Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (**BMUV**) are working on criteria that will determine when certain mine-related substitute construction materials will no longer be considered waste. The necessary legislative procedure is to be completed before the end of this legislative period. In the coalition agreement, the federal government already set itself the goal of releasing quality- waste products from waste legislation and giving them product status. A key point paper is being prepared, which will then serve as the basis for a draft amendment. Such a regulation would achieve more for the circular economy than a discussion about product-specific recycling quotas, according to **Felix Pakleppa**, managing director of the Central Association of the German Construction Industry (**ZDB**).

As of 1 August this year, the *Waste Management Ordinance* will come into force, the core of which is the *Substitute Construction Materials Ordinance*, which was introduced by Article 1. This will regulate how and where construction waste and excavated material may be used as recycled construction material. More than 220 million tonnes of mining-related construction waste is produced in Germany every year, although almost 90% of this is recycled in an environmentally sound manner, according to a recent report by the initiative **Kreislaufwirtschaft Bau**, of which the ZDB is a member.

Ultimately, for recycled buildings to take off, developers, investors, architects and renovators need to work together. As **Clive Nichol**, CEO of **Fabrix**, a real estate investment platform specializing in bringing value to underutilised and overlooked urban spaces, notes: 'Lots of people have been advocates of urban mining for many years but it's those controlling the development who must make the decision and take the perceived risk. It took us a lot of work, not everyone is interested in doing that.'

GERMANY/RESIDENTIAL

German residential rents continue to drive upwards

There is little doubt now that the near-absence of a functioning investment market for German residential housing is having an unpleasant side-effect for tenants - in that it is steadily pushing up the level of rents on new leases, both in German cities and in their surrounding hinterlands.

While the multi-year boom in residential housing prices is acknowledged to be over, with evidence of small actual price falls in most cities (except Berlin), the trend towards ever-higher rents continues unabated. For years, German house prices had been outstripping the rate of rent increases. No longer.

Tobias Hartmann (*pictured, right)*, CEO of Germany's biggest property portal **Immoscout24**, with access to a vast range of price trends, said recently, "We're expecting continued rental price increases on the German rental market."

Broker **JLL** is documenting the steady acceleration of rental prices across the biggest eight cities - Berlin, Munich, Hamburg, Cologne, Frankfurt, Düsseldorf, Stuttgart and Leipzig - and saw rents rise 6.3% in the second half of 2022 over the same period a year before, during which time purchase prices rose only by 1.6%. Rents are rising fastest in Berlin, with a jump of a whopping 27% (on new leases) since November, according to property portal Immowelt. Berlin is now the second most expensive city to rent in, after Munich.

A study by property portal **Immowelt** shows that 12 of the largest cities in Germany have seen rent increases of more than 10% since 2018, with much of that coming in the last two years. Based on a standard apartment (80 sqm, 3 rooms, 2nd floor), the biggest rise was in Berlin (up 34%), followed by Leipzig (+24%), and Bremen and Cologne (+21% each). The smallest increase was in Dortmund (+6%) and Stuttgart (+/- 0%). The inflation rate over the period was 19%.

The Immowelt authors put the disproportionate rise in rents in Berlin down to two factors: the city has been a major recipient of refugees from the war in the Ukraine, and the after-effects of the collapsed attempt to impose a rent cap on the city - a measure which was subsequently thrown out as being unconstitutional by Germany's **Supreme Court**.

The **Deutsche Mieterbund** (*German Tenants Association*) recently warned of further rent rises ahead. Association president **Lukas Siebenkotten** said in an interview with **Funke Mediengruppe** that people should be under no illusion as to the direction of travel. "Anything that is at all legal will be exploited to the

Some small provincial towns have seen an extraordinary increase in demand, such as Gera in Thuringia, about an hour away from Leipzig by train, where demand has jumped by 350% in the last 12 months. Or Altenburger Land, likewise only 45 minutes from Leipzig by train, where demand has surged 300%.

From page 24

hilt to increase rents over the coming years… Rents are going to be rising much faster than pay rises," he said.

It's not just in the big cities that rents are headed determinedly upwards. Recent figures from Immoscout show that more people moved out of big cities than at any time since 1994. Demand for housing in suburban areas has risen on average 23% since the beginning of this year, without falling in the big cities - where the competition for each apartment is six times higher.

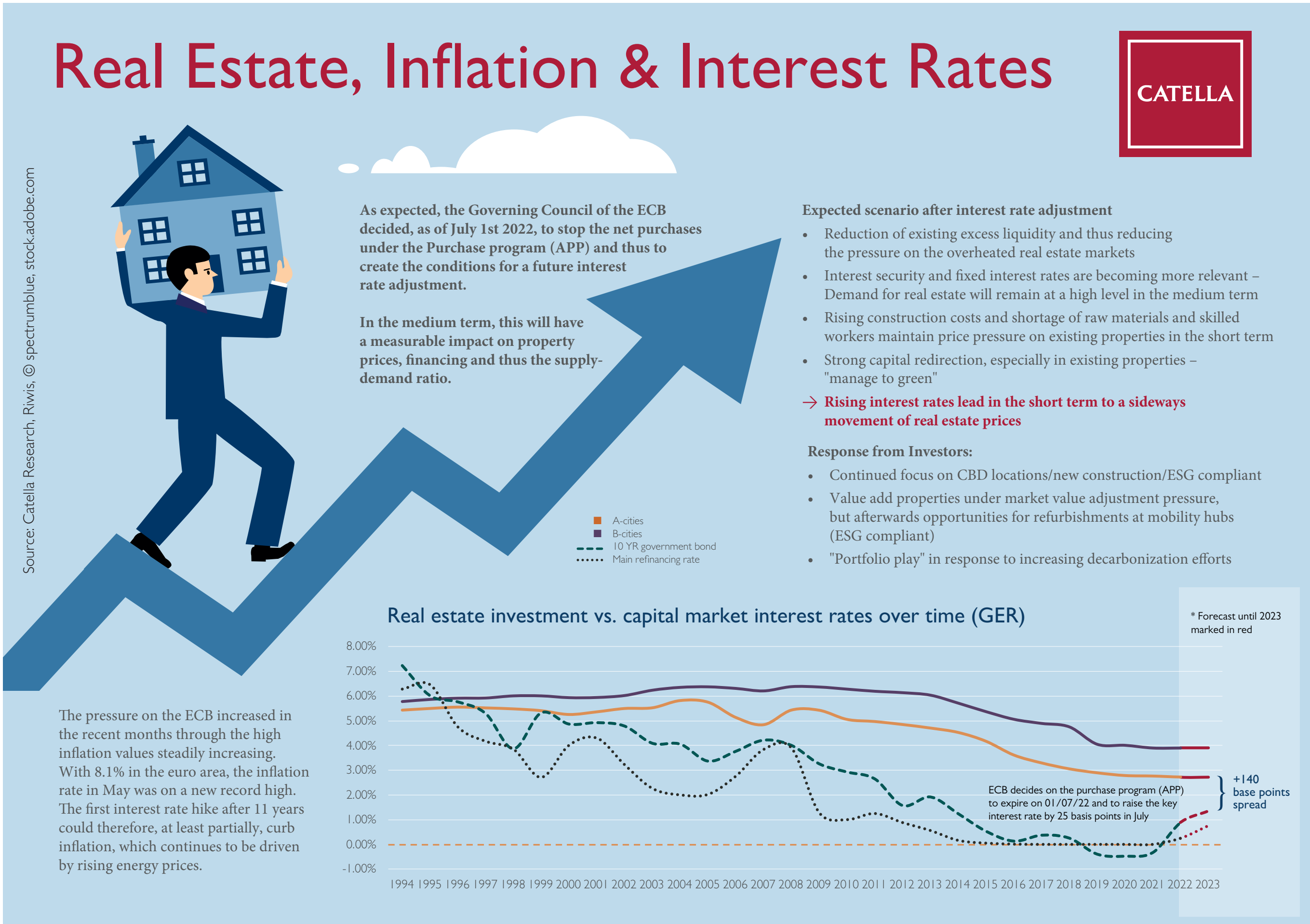
Some small provincial towns have seen an extraordinary increase in demand, such as Gera in Thuringia, about an hour away from Leipzig by train, where demand has jumped by 350% in the last 12 months. Or Altenburger Land, likewise only 45 minutes from Leipzig by train, where demand has surged 300%. In both Gera (average rent €5.62 per sqm/month) and Altenburger Land (€5.44 per sqm/month), the rents are considerably cheaper than in Leipzig, at €7.75 per sqm. This corresponds to 24 sqm more of living space in Gera and 35 sqm more in Altenburger Land - compelling arguments for many, particularly those with small children.

Given the margin by which the German coalition government has been missing its house-building goals, people are obviously locking in those lower rents in the more rural areas before they too become almost unaffordable.

Still modest by European standards

To put all this in a European perspective - it's important to realise that while these rent increases have a big effect on Germans, rents in other European countries, in particular the big cities, are often much higher than they are in Germany. Even Munich, at an average rent

Lukas Siebenkotten, Deutscher Mieterbund



Investment in corporate real estate was down by 19% in 2022 to €1.32 billion, around 26% below its long-term average. Yields rose across all asset types, and letting numbers were up due to a high demand for space. Overall demand for production real estate remained high, despite surging energy costs.

...from page 25

of €20.00 per sqm/month, is still reasonable compared to London or Geneva.

A recent survey by **Catella** of 63 cities in 20 different European countries puts the average rent at €17.25 per sqm/month, although there are wide divergences. At the top end of the price scale would be London (€33.10), Geneva (€31.00) and Luxembourg (€30.00), whereas Liège in Belgium (€9.50) or Brno in the Czech Republic (€10.00) would be at the more modest end.

Also towards the upper end would be cities like Amsterdam, Oslo, Dublin, Paris and Zürich, all averaging around €25.00. By comparison, German cities are priced well below this, with Munich (€21.50), Frankfurt (€16.75), Berlin (€16.00), Hamburg (€14.50), Cologne (€14.50), and Düsseldorf (€12.60) all firmly in the lower half of the league table.

The Catella study also measures the affordability of an apartment as a function of average incomes prevailing in a given city, or how much housing can inhabitants afford on basic rent, based on a benchmark of a quarter of their net household disposable income. Here again there were wide regional differences.

For potential buyers, the range also varies widely - from €1,720 per sqm in Lahti, Finland, to €15,350 in Geneva. The average purchase price for a freehold apartment in Europe (both old and new-build) is €5,235 per sqm, with all the big German cities more expensive than this - Cologne at €5.050 per sqm, Hamburg at €6,350, and Munich €9, 600.

The Catella study points to Vilnius, Riga, Krakow and Wroclaw as having currently attractive entry points, returning yields of more than 5% on average there.

GERMANY/CORPORATE REAL ESTATE

Corporate real estate sees rent rises on high demand, lower trading volume

Corporate real estate is a segment of the market in Germany that is not widely tracked by outside observers, partly because of a certain difficulty in accessing up-to-date data but also because of the lack of public accountability, with large industrial corporations using internal benchmarks to measure the efficacy of their bricks-and-mortar assets.

Still, the sector IS tracked, and research group **Bulwiengesa** have just produced their 18th semi-annual report on the investment market for company-owned buildings and other properties, mainly for industrial use.

The study is commissioned by the **Initiative Unternehmensimmobilien**, an interest group consisting of ten of the most active participants in the market - **Alpha Industrial Developers, Aurelis, Aventos, BEOS, Cromwell Property Group, Frasers Property, Garbe Industrial Real Estate, Investa, Palmira Capital Partners** and **Siemens Real Estate**. The common goal is to improve transparency in this market segment to facilitate access to this asset class. The ten share a reporting system in cooperation with Bulwiengesa, who evaluates all the transaction and leasing date of the participants.

In sympathy with other property investment markets, investment in corporate real estate was down by 19% in 2022 to €1.32 billion, around 26% below its long-term average. Yields rose across all asset types, and letting numbers were up due to a high demand for space. Overall demand for production real estate remained high, despite surging energy costs, says the report.

Ralf-Peter Koschny, board member at Bulwiengesa, commented on the report: "The decline in the volume highlights the uncertainty of the players in what is actually a very crisis-resistant asset class. There will be more transactions only when there is greater certainty about inflation and interest rate developments."

The second half of the year saw strong demand for production facilities, making them the most resilient asset type within corporate real estate. Industrial parks were the second-most popular usage type, accounting for €311m, although their share of the market fell by 40% in the last six months of the year. Koschny said the turnaround in interest rates in the middle of the year led to a "complete revaluation of corporate real estate, with financing conditions becoming significantly more difficult; the rise in yields has gained further momentum, at least in part."

Minimum yields (gross initial yields) for prime properties in the last six months were 4.2% for industrial parks, 3.7% for transformation properties, 3.8% for warehouse properties, and 5.0% for production properties.

While investments in the first half of 2022 were broadly spread across regions, invest-

Ralf-Peter Koschny, board member, Bulwiengesa

Continues on page 28

ments in the second half of the year were increasingly concentrated on individual regions. For example, the top 3 regions of Berlin, Region East and Region South generated around 67% of the total investment volume in the second half of the year.

While transactions declined, more space was rented, due to ongoing high demand and uncertainty caused by the interest rate rises. Overall new leases were up in the second half to €1.34m, up 7.5% on the first half and itself about 5% above the 5-year average. Demand came mainly from the traditional manufacturing sector, with many now coming from the tech sector. Rents for all types of space continued their upward march due to the underlying demand.

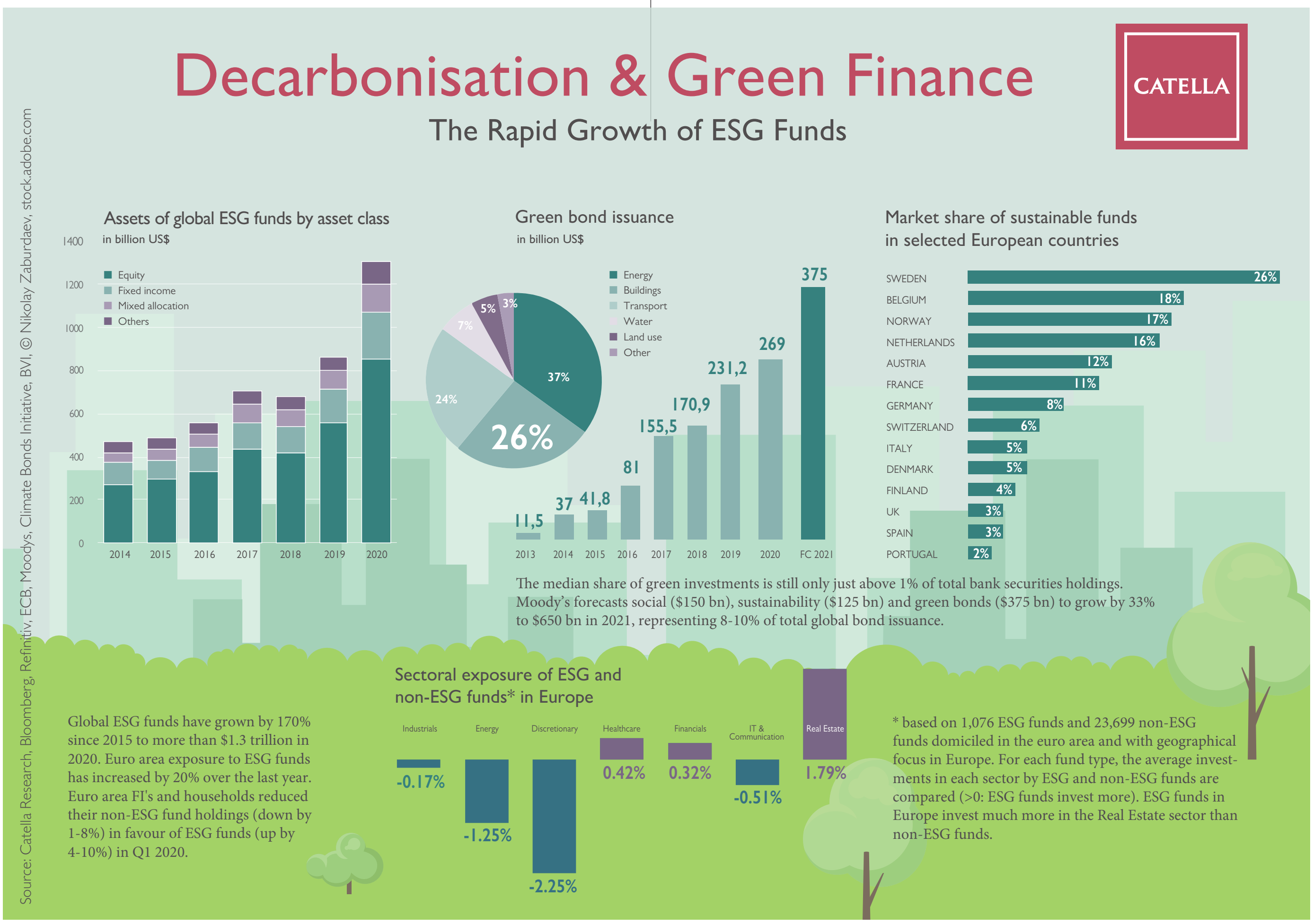
Corporates slow to recognise critical role of ESG in property

In contrast to its residential housing markets, where the majority of Germans rent, it's a different story in corporate real estate, where German companies have traditionally preferred to own the buildings from which they generate their business. According to industry lobby group **ZIA** the average rate of ownership in Germany of a company's buildings is 75%, compared to only 25% in the USA, where the concept of third-party ownership or sale-and-leaseback is much more prevalent.

ZIA puts the value of corporate real estate - property owned by companies whose business is NOT real estate, at about €3 trillion, or about a third of the total value of real estate in the German economy. At about €960 million square metres, this is more than all German office and retail space together.

A study last year by consultants **KPMG** highlighted how woefully underprepared at least half of corporates are in respect of ESG issues, with almost no widely available standards to act as benchmarks for corporate property owners. And with 96% of corporate properties more than 20 years old, there's likely to be a lot of catching up to do, given that 10-20% of listed companies' costs are eaten up by property.

A further study last year by fund giant **Union Investment** showed that one in four DAX companies had no clear idea when they planned to reach carbon neutrality - offering enormous scope for all those advisors and experts in the 'future of work' to tap into the nascent demand for the enormous transformation needed to get Germany's workplaces fit for the new world. Energy efficiency, carbon reductions, adaptation to the new demands of electro- and



As for the VdP banks, while lending volumes are down, demand for German Pfandbriefe remains high. The VdP banks registered issues worth around €15 billion between January and the end of February this year, a level that was last recorded in 2011, with the focus on maturities of three to five years at 46%, compared with five to seven years at 39% in 2022.

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From page 27

hydrogen-mobility - these all represent new challenges to corporate managers for whom the management of their properties was traditionally viewed as a secondary or tertiary activity, well below the focus paid to the production of their core products. Accounting for yield and stand-alone profitability of their bricks-and-mortar assets was rarely seen as a priority.

Engineering consultancy group **Drees & Sommer**, in its latest *CREM (Corporate Real Estate Management) Trend Study*, sees companies starting to place a more central importance on their property management, with companies like **Siemens**, **BASF**, **Telekom**, **BMW** and **Bosch** being cited as particularly progressive. A key factor seems to be the degree to which a company has embraced digitalisation in affecting its approach to property management.

The widespread adoption of *Smart Metering Systems*, as practised by Siemens, for example, in all of its properties, for instantly measuring its energy consumption and energy costs, is seen as just one step towards a more professional approach to corporate property management.

GERMANY/PROPERTY BROKERS

Small brokers scramble to tie-in with strong digital partners

Here at REFIRE we've had plenty of occasion recently to ask ourselves - just how are all those brokers out there getting on in a time of such sparse transactions, when whole swathes of the population who might have been thinking of buying are now sitting back and taking a more 'distanced' view of the market?

In the German market for private residential transactions, volumes have plunged over the past year with the abrupt rise in interest rates, higher equity requirements, greater scrutiny of a borrower's ability to repay, the cost of living shock, and greater economic uncertainty. Many of the established broker groups, such as **McMakler** and **Homeday**, who had been hiring staff and independents on a large scale over the last few years, have since been shedding large numbers of those same people, with further layoffs likely.

Last year property transactions in Germany collapsed by 41% compared to the previous year, according to broker **JLL**. This year is looking probably even worse, with few brokers predicting any sort of recovery before next year at the earliest, if even then. In a recent interview, **Ronald Slabke**, the CEO of financial platform **Hypoport** said a form of market cleansing was now underway. "Many smaller brokers won't survive the price slide in the property market - which is a good thing for the market. The days are gone when it was enough to put a property up for sale and organise a viewing in order to charge a high commissions," he said. Brokers who are financially weaker, haven't adapted to the changes in the market and haven't invested in digital technologies for real estate brokerage are unlikely to survive, he said.

The barriers to entry to the brokerage business in Germany have traditionally been low, with thousands of independent brokers among the 29,000 registered brokers only occasionally actively brokering for a commission. But the job is no longer the fairly easy activity it once was, and with commissions now being shared between buyer and seller, independents are having to invest more to compete with the myriad new competitors on the market. Without a network and a digital platform behind them, this may prove a challenge too far, no matter the degree of local knowledge and contact address book.

French broker platform Safeti enters German market

The latest among a raft of new competitors looking for a slice of the lucrative German pie is the French broker network **Safeti**, drawn by what it sees as the potential in a market with the EU's lowest rate of owner-occupiership. After launching in Spain and Portugal, Germany is the third new market for the French group, which was founded in 2010 and turned over €210 million on €5.6bn in transaction volume across 26,000 concluded deals last year. It counts 6,500 brokers in its now four countries including already 60 active brokers in Germany - which it plans to increase to 200 by year-end.

Ingrid Livet, the head of Safeti Deutschland says, "With commissions of between 70% and 99% we can offer our members compensation which is well above market rates". The company doesn't plan to open regional offices, but

Ronald Slabke, CEO, Hypoport

For many brokers, without a network and a digital platform behind them, this investment may prove a challenge too far, no matter the degree of local knowledge and contact address book.

instead work with home-based independents embedded in their local markets.

Safeti is the third foreign brokerage group to enter Germany this year. US giant **Keller Williams** is opening regional *Market Centres* in the biggest cities across the country, while Swiss group **Neho** is also expanding into Germany with its discount-commission model, starting with a concentration on southern Germany. It plans up to 100 brokers and franchisees over the next 30 months.

The Austin, Texas-headquartered Keller Williams is the world's largest real estate franchise based on agent number. As part of its nationwide German expansion, it recently teamed up with Berlin brokerage group **Black Label** as partner to form the backbone of its Berlin operations. Black Label boss **Achim Amann** said the Berlin group would draw in large numbers of previously independent brokers to join up with the Keller Williams CRM platform and profit from the benefits of the network.

The company has already been in Europe for some years, with market centres in 16 European countries, including Spain, France, Portugal and Turkey, where it kicked off in Europe in 2013. Around the world it has more than 1,100 offices across 50 regions, with more than 300 of those outside the US and Canada.

It counts more than 200,000 associates or representatives around the world, boosting its claim to be the world's largest real estate franchise. In France, where it launched in 2016, it now has about 3,000 brokers.

The company defines itself as a network broker, emphasising the opportunities for its representatives to access its proven international network. CEO **Swen Nicolaus** said, "We are taking KW's successful systems and models, which are based on 40 years of experience and continuous development by 200,000 associates, and making them available to the German market."

Christian Hoffmann, who will be COO in the new business, says the difference between the KW business model and other classical franchise systems is the level of service provided by the company in handling administration, offering its technology platform and - importantly - extensive training and ongoing education.

Brokers can continue to operate under their own names, in contrast to most other franchising businesses, while fees payable to KW are said to be much lower, and more flexible in how they are structured. "In five to eight years we want to have a significant market share in Germany, on a par with or above that currently enjoyed by **Engel & Völkers**," said Hoffmann. Engel & Völkers is Germany's largest broker network.

Achim Amann,
CEO, Black Label Group

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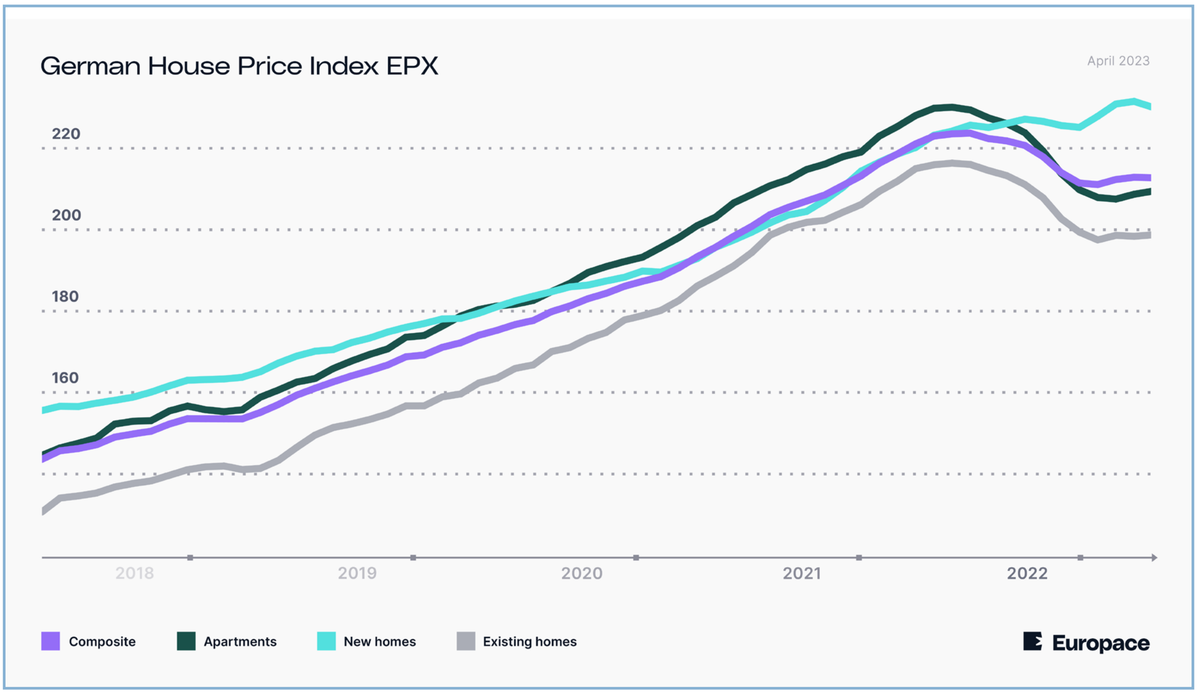

Neho survey highlights dissatisfaction with German brokers

New Swiss arrival **Neho** recently commissioned a survey by **YouGov** of a representative 2041 adult potential homebuyers as to their attitudes to German brokers.

Not surprisingly for a study commissioned by a company who's here to challenge the status quo and 'interrupt' the market, the survey found that Germans find brokers too expensive, too intransparent, and provide a dissatisfactory service.

Sebastian Eraghi, the COO of Neho, said of the survey results: "Brokers in Germany are too expensive. The already high commission of usually over 7 percent, many brokers have once again increased at the beginning of the year. Buyers now often pay up to 8% of the purchase price to the broker. Here we see potential with our commission of 1.75% per party to meet the desire of customers for a cheap and good broker. In Switzerland, our commission fight approach has made us the market leader."

Describing his company's *modus operandi*, Eraghi said, "Customers want good transparent service at low cost. The industry should embrace that and use today's digital capabilities to provide customers with the highest possible transparency in the sales process. At Neho, we solve this via a seller cockpit: the customer can see at any time how many calls the agent has made, how many people have looked at the exposé and how many viewing appointments have been made."

Further findings from the survey were that the majority of respondents consider the professional competence of real estate agents to be 'good'. 44% of respondents consider real estate agents to be professionally competent, 19% do not think they are competent enough and 21% did not trust themselves to assess the competence of real estate agents.

"Real estate agents in Germany can learn from abroad. The marketing and sales processes in Germany are altogether too intransparent and inefficient. Customers want transparency about the services provided, as well as an affordable service. In recent years, real estate prices and broker commissions have risen without any improvement in performance, and this threatens to come back to bite German brokers," said Eraghi.

DIP
THE ALLIANCE OF
PROPERTY COMPETENCE

Deutsche DIP-Büromärkte Q1-Q3 2022 (vs. Q1-Q3 2021) im Überblick, Stand: 30.09.2022

	Büroflächenumsatz* (in m²)		Gew. Spitzenmiete (in EUR/m²)		Mittlere Miete City (in EUR/m²)		Angebotsreserve (in m²)		Leerstandsquote (in %)	
	Q1-Q3 2022	Q1-Q3 2021	30.09.2022	30.09.2021	30.09.2022	30.09.2021	30.09.2022	30.09.2021	30.09.2022	30.09.2021
Berlin	625.000	526.000	41,50	40,00	28,50	27,80	690.000	575.000	3,3	2,9
Dresden	36.500	45.000	18,50	15,50	12,50	12,00	70.000	98.000	2,8	3,9
Düsseldorf	244.700	217.700	29,00	28,50	22,50	21,90	730.000	650.000	7,9	7,0
Essen	84.000	57.000	16,50	16,50	11,80	11,20	172.000	155.000	5,6	5,1
Frankfurt a. M.	294.300	263.600	46,00	45,50	27,20	27,50	925.000	934.000	8,1	8,1
Freiburg**	20.000	18.000	17,00	16,50	13,50	13,00	39.000	41.000	2,7	2,9
Hamburg	453.000	332.000	34,00	31,50	19,00	18,00	505.000	530.000	3,6	3,8
Karlsruhe	31.500	40.000	13,80	13,50	12,30	12,00	88.000	90.000	3,4	3,5
Köln	292.000	181.000	27,00	28,80	17,80	17,30	297.000	230.000	3,8	3,0
Leipzig	90.000	95.000	17,50	16,50	13,50	12,00	150.000	171.000	4,0	4,6
Magdeburg	18.800	17.200	14,00	13,50	10,00	8,50	61.500	68.000	5,9	6,5
München	580.000	435.000	42,00	40,00	27,00	24,00	980.000	905.000	4,4	4,2
Nürnberg	53.000	73.500	16,50	16,00	12,00	12,00	164.000	138.000	4,2	3,5
Stuttgart	245.000	75.000	32,00	25,00	19,50	16,50	320.000	255.000	3,9	3,1
DIP-Büromärkte	3.067.800	2.376.000	35,10	33,30	22,70	21,70	5.191.500	4.840.000	4,6	4,4

* inkl. Eigennutzer
** neuer DIP-Partner seit 2021; Anpassung des Vorjahreswertes inkl. Freiburg

Quelle: DIP Deutsche Immobilien-Partner, Aengevelt Research

"East Brandenburg and Frankfurt an der Oder are a hub between North and South, East and West. The importance of Brandenburg as an industrial and logistics location will increase, and the potential in the direct vicinity of the Berlin metropolitan region and Poland is great. Interest in sites in eastern Brandenburg is growing discernibly, with planned sites increasing just as much as inquiries."

Peter Bergmann, ALCARO Invest

EASTERN GERMANY/RESIDENTIAL

East German cities highlighted as 'hidden champions'

Cities in Germany's eastern states have been showing steady growth in both the size of their economies and their investable real estate markets in recent years. Announcements of large scale industrial inward direct investment by global chipmakers and suppliers to the electric vehicle industry have helped fan the flames of interest in unearthing new opportunities in real estate that could profit disproportionally from these future industrial hotspots, so-called *Hidden Champions*.

A recent online discussion, titled "*Hidden Champions in the East - Rising Stars in the Real Estate Market*", in which REFIRE participated, dealt with the expansion plans of some of these large companies, whose investments are expected to keep office and logistics rents in the region stable at least, and possible even rising.

Steffen Sauer, managing director at broker **Colliers** in Leipzig and Dresden in Saxony, the two largest cities in the east, said that property markets in the region were holding up robustly, partly due to the fact that the markets are less dependent on large leases and that small and medium-sized requests for space can still be fulfilled in available existing properties.

"The market in eastern Germany currently offers good opportunities for commercial tenants and investors in all sectors in part due to the fact that pricing here, following the purchase price declines last year, is more advanced than in Germany's A-locations... Even beyond Leipzig and Dresden, demand for land for office and logistics projects among investors and owner-occupiers in eastern Germany remains high. Planned relocations and expansions by major companies such as Intel, Beiersdorf and Deutsche Aircraft continue to provide a tailwind for the east, so we expect rising take-up of space in the second half of 2023 as well."

Karsten Kluge, managing director of Berlin-based **DVI Group**, which holds portfolios of residential and office properties, highlighted the merits of office investment in Chemnitz and Erfurt. In both cities, DVI has a portfolio of more than 170,000 sqm and looking to expand further. "The combination of a growing population, a prospering local economy and low levels of new construction provide us with ideal conditions for our acquisitions in Erfurt and Chemnitz. Both cities will continue to develop positively. Chemnitz with its robust medium-sized economy and high-tech companies in the vicinity of the Technical University. Erfurt as the state capital (of Thuringia), new ICE hub and its logistics location in the center of Germany."

While the faltering economy and high energy prices could put a damper on the upward rise of rents, Erfurt and Chemnitz could benefit from the lack of office space meeting the new higher energy efficiency standards. Top rents are likely to hold firm at about €13.00 per sqm. This year, Erfurt will see the opening of DVI Group's new centre downtown, the *Forum am Anger*, a mix of office, retail, gastronomy and entertainment areas - following conversion by general contractor **Goldbeck**.

George Salden (*pictured, below*), CEO of Berlin-headquartered **Capital Bay Group**, focused on the charms and attractiveness of Magdeburg, the capital of Saxony-Anhalt. His company is building the *Klinkeviertel* neighbourhood development in the popular Sudenburg district, a mixed-use residential quarter with 500 apartments and a total living space of around 36,000 square meters. Various forms of living - from co-living for younger people to inpatient care - as well as commercial uses will offer a diverse range of options for all age groups. 40% of the living space is earmarked for assisted living and inpatien care, with heat being generated using new technology from decentralized air-source heat pumps, "setting standards from an ESG perspective", said Salden.

The *Klinkeviertel* is one of the first projects Capital Bay is undertaking with its joint venture partner **Daiwa House Modular Europe**, the market leader in modular construction. Salden sees demand for housing growing in the city - "With large companies such as **Intel**, **Hello Fresh** and **Nokera** settling in and around Magdeburg, demand in the city's housing market will also increase and further diversify in the medium term.

And pitching in on behalf of East Brandenburg and the border city of Frankfurt (Oder) was **Peter Bergmann**, project manager of **ALCARO Invest**, a nationwide specialist in the development, sale and leasing of logistics and commercial real estate. In particular for industrial and logistics properties the region has made huge strides in recent years, he argued.

"A lot is happening not only in Ludwigsfelde, Eisenhüttenstadt and Großbeeren, but also in Grünheide and the twin city Frankfurt Oder / Slubice. In contrast to the past, there is not one big showcase project, but a multitude of different industrial and logistics settlements at various locations. Entire supply chains from the automotive and energy production sectors have now settled here."

"The list of location advantages is long: there are modern fiber-optic networks, a well-developed transport network of roads, railways, waterways and CT hubs, resilient power grids and a great deal of renewable energy. In many cases, Brandenburg can already supply itself with energy from the sun and wind," Bergmann said.

The region is well-placed to benefit from long-term trends, he said. "East Brandenburg and Frankfurt an der Oder are a hub between North and South, East and West. The importance of Brandenburg as an industrial and logistics location will increase, and the potential in the direct vicinity of the Berlin metropolitan region and Poland is great. Interest in sites in eastern Brandenburg is growing discernibly, with planned sites increasing just as much as inquiries."

GERMANY/FAMILY OFFICES

STRATEGIS AG sets up residential portfolio for German family office:

Berlin-based transaction advisory and property management firm **STRATEGIS AG** has set up a residential property portfolio for a German family office. To date, it has acquired 364 apartments in three locations within the scope of the mandate, including an existing quarter in the town of Zossen south of Berlin comprising 265 apartments, a new housing estate of 74 apartments completed in 2022 in Hennigsdorf north of Berlin, and a new-build development in first-line waterfront location in the Köpenick district of Berlin with 25 apartments and six boat berths that are nearly completed. The sales prices have not been disclosed.

'Despite the difficult market environment created by rising construction and financing costs, we managed to identify residential properties with attractive yield rates,' **Sascha Nöske**, CEO of STRATEGIS told REFIRE. 'The target investments for the family office are in Berlin and the neighbouring area. If we look at the same locations in Berlin compared to two years ago, the yield multiplier has been reduced by 20%. On the residential rental income side, it's 10% plus compared to two years ago. It's not shopping, it's just investment. I'd estimate that family offices allocate between 20% and 25% of their total allocation to real estate.'

Family offices taking counter-cyclical approach

Typically, German family offices range from around €20 million to €200 million in size, **Dr. Thomas Beyerle**, head of European research at Catella, told REFIRE, estimating that family offices accounted for around 30% of deals in the first quarter of the year: 'It's only an estimate since there are very few press releases about it,' he said. 'However, here I see a clear counter-cyclical approach as was the case in 2011 and 2012 when they first acquired residential portfolios, only this time they are also investing in retail properties in A locations and in hotels. We will only see in the third quarter how strong their commitment really was in the first half of 2023 but they are securing - not really at a significant discount either - sites that are not duplicated.'

Most family offices are properly diversified, investing in real estate, also in Berlin, according to Nöske: 'We're also talking to UK investors as well who are very interested in Berlin. They've always had global glasses. They are evaluating assets and see a yield that is comparable to gilt bonds in America but, unlike gilts, real estate offers the potential of capital gains.'

Gerhard Alles, head of real estate investment at real estate agency **Schürrer & Fleischer** agrees: 'Due to the evolution of the economy at present, family offices are after interesting investments. Traditionally, they have a high level of expertise and now they're looking more at value-add. They are in a more comfortable situation than many other investors. In general, residential assets give them stability. Some of our family offices clients buy 10 flats, others want 20 to 50 units as they need to have a critical mass for it to make sense. Due to the industrial backgrounds that some of them have – many of them made their money in industry – they're also looking at light industrial to complement that. They're also looking at agricultural land as some of them have agricultural production. It's a long-term investment but such land rarely comes on the market.'

Sale price gap can be overcome

Nöske notes that on the vendor side, there is a gap regarding the sale price expectations but that such a gap can be overcome: 'Things that proved helpful in this context include our long-term presence in Berlin and Brandenburg and our great networking reach in the market. In addition, we were able to convince our client of the merits of our boutique strategy...while we, in turn, can take advantage of the synergy effects that you get when dovetailing management and sales so as to develop property values in optimal ways. The next acquisitions are planned for the ongoing year of 2023. They will focus both on standing properties and on new-build construction projects in Berlin and in easily accessible regions of the greater metro area.'

John Amram, founder and CEO of **HPBA Off Market Solutions**, has spoken about now being an opportune time for wealthy family offices to invest in real estate given their predis-

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position towards direct ownership. Family offices invest and manage assets with the aim of preserving the wealth of the respective families. According to estimates, there are around 5,300 single-family offices worldwide, of which around three-quarters are located in North America and Europe. In addition to single-family offices managing the capital of only one family, there are also numerous multi-family offices that professionally manage the assets of up to several hundred families.

'I agree with John Amram, there is a discount to cost,' Nöske said. 'Family offices don't depend on interest rates, so they can buy now at a discount and refinance later when conditions are better. In the meantime, the income on the property keeps growing.'

The strong performance of alternative assets, including real estate, is driving a long-term switch to investing in alternatives for the family office sector, according to new global research published last month by **Ocorian**, the specialist global provider of services to high net worth individuals, family offices, financial institutions, asset managers, and corporates. It surveyed more than 130 family office investment managers responsible for around $62.42 billion of AUM and found that almost all agree that the sector is increasingly investing in alternatives and that the switch is a long-term trend.

'As family offices look to diversify their portfolios and generate higher returns, there is a growing interest in alternative asset classes such as private equity, real estate, and hedge funds,' said **Amy Collins**, head of family offices at Ocorian. 'Whilst these asset classes offer the potential for higher returns, they also require a higher level of expertise and specialised knowledge.'

GERMANY/GROCERY-ANCHORED RETAIL

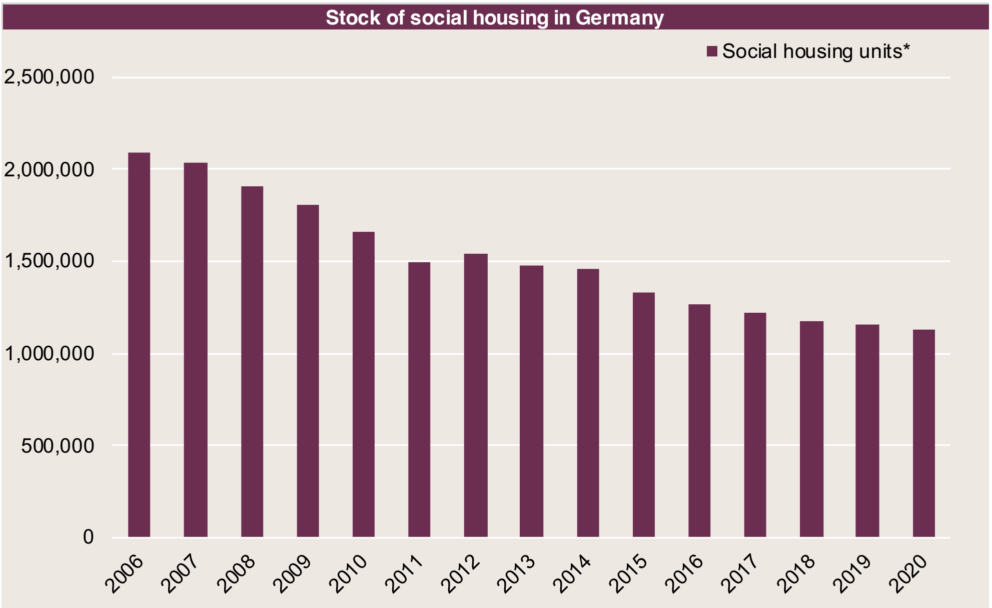
Greenman raises financing for first e-vehicle hypercharger station

It may just be for a small amount, but it's probably the start of a series of separate financings for essential infrastructure in suburban grocery-anchored retail parks. As part of the installation of its first electric vehicle hypercharger station, the Irish group **Greenman OPEN** has signed a financing deal with German bank **Volksbank Wittenberg**.

This first deal, for its hyperchargers at the retail centre *Mahlsdorfer Märkte* in east Berlin,

John Amram, Founder & CEO, HPBA Off-Market Solutions

Stock of social housing in Germany



Source: Savills based on public statistics / * rounded numbers

Maximilian Bley, Founder & CEO, Greenman Energy

From page 33

may only be for €1.2m, but the company plans to rapidly and successively advance the expansion of its renewable e-charging infrastructure and equip the first 66 assets of the OPEN fund by 2027.

Greenman plans to invest about €37 million in the infrastructure, financed by a combination of debt and equity, with the equity coming from Greenman OPEN (75%) and the Greenman Group itself (25%).

Maximilian Bley, CEO of subsidiary **Greenman Energy**, said this was the first time hyperchargers had been financed to this extent in the industry, but that lenders were waking up to the potential, as renewable e-mobility becomes ever more routine.

"A total of four charging points are planned to go operational at *Mahlsdorfer Märkte* in the next two weeks. According to our concept, this will be followed by the expansion and connection of one additional location per month. While we plan to scale our business model further, even this conservative estimate allows for the full final electrification of OPEN's fund portfolio before 2030."

Greenman anticipates that every fourth car (15 million) on German roads will be an e-vehicle by 2030. Greenman Energy aims to place hypercharger stations in more than just supermarkets and retail parks in Greenman's OPEN fund to meet the growing demand for charging options during grocery shopping. The plan is to provide around 250 operational charging stations for consumers by 2027.

Simone Lüllwitz, Head of Corporate Customers at Volksbank Wittenberg, said: "We are seeing connecting factors between the system-relevant energy and mobility transition and the more traditional real estate business. Here, we are working with a specialist in investments in both areas, so we're able to make a sustainable contribution to the realisation of this important infrastructure."

Greenman's open-ended fund has more than €1.13bn of German grocery-anchored retail assets. It has publicly set itself the target of being climate neutral with its assets by 2050, and through Greenman Energy, is already actively installing photovoltaic panels on the roofs of its portfolio of properties, supporting their tenants' own Scope 3 emission targets and lowering their energy costs.

GERMANY/FINANCING

Fractional ownership of holiday homes increasingly popular post-COVID

As the holiday market starts to bounce back after COVID, fractional ownership of holiday homes is becoming increasingly popular.

The rise in interest has actually increased since COVID, given that the risk of contagion is low in a private holiday home, and a home office on the coast or in the mountains is also an attractive thought. However, the cost for many people is just too high, which is where fractional ownership comes in.

According to a study by the **Institut für Demoskopie Allensbach (Allensbach Institute for Public Opinion Research)**, one in four people in Germany would like to own their own holiday home, which equates to around 20 million people but only about 1.26 million actually own one.

So what constitutes fractional ownership or fractionalization? Essentially, as the word suggests, it means owning a part of something, although what that thing is varies enormously. It can include holiday homes, shares in REITS, land subdivision, tenants in common and over the past decade, there has been a surge in technology-enabled fractionalisation platforms in real estate.

Making such investments or other valuables accessible to more of the population, is often lauded as one of the obvious value-adds of fractionalisation platforms. The downside? Having to schedule when you can use a property with your co-owners.

Nikolaus Thomale, one of the founders and managing director of Berlin-based PropTech **MYNE Homes**, is trying to change that - their customers can purchase shares in a holiday home online, becoming co-owners with up to seven other buyers. MYNE Homes has been active since 2021 and closed a financing round of €23.5 million a few months ago, attracting investors such as Berlin-based FinTech fund **Embedded/capital**, family offices **TruVenturo** and **Scope Hanson** and venture capital firm **Rivus Capital**. In order to further expand its own platform, MYNE acquired Hamburg-based competitor **VillaCircle** in March. VillaCircle offers fractional-ownership of luxurious holiday homes in Spain, Austria, Croatia and on the Côte d'Azur, among others.

'Acquisitions play an important role for us in further growth and underline our claim to be the leading platform for investments in holiday properties in Europe,' Thomale, said. 'With the expansion of the portfolio to additional destinations, and a strengthening of the offer in the luxury segment, MYNE is appealing to an even larger target group.'

Providers such as MYNE, Denmark's **21-5** – which now has an office in Hamburg - and French **Lazazu** are now trying to strike a balance between exclusive ownership of a property and mere rights of use. The new concept is called co-ownership and, like with a timeshare, customers acquire rights of use but also indirect ownership. In addition, the providers are trying to keep the circle of owners manageable. With MYNE, for example, a maximum of eight owners share a property, so that it is available to them for rent or personal use for about six weeks a

'With the expansion of the portfolio to additional destinations, and a strengthening of the offer in the luxury segment, MYNE is appealing to an even larger target group.

Fabian Löhmer, co-founder, MYNE Homes

year. Experience shows that this is sufficient: 'Our clients want less rather than more usage time,' Thomale said.

21-5 is offering something similar, albeit it on a larger scale. Here, 21 families acquire shares in five properties, which gives them around 12 weeks of holiday time a year. This is not only a financial issue, but also an ecological one, according to **Fabian Löhmer**, who is also part of the five-member founding team of MYNE.

Nonetheless, this requires some juggling to avoid everyone wanting to use the same properties at the same time. As a result, MYNE only offers shares in the same property to two families with school-age children from the same region: 'During holiday periods, the property is available for a maximum of two weeks, and those who have booked at Christmas must give priority to the other owners the following year. In this way, at least 80% of the usage needs are met,' Thomale said. In return, MYNE manages the properties, including renting, if requested, for a fee of €99 a month. Maintenance and running costs are passed on and MYNE receives a commission for the rental.

Buy in stake ranges from €50,000 to over €1 million

So what does someone interested in such a scheme have to pay? It varies from firm to firm but is usually at least €50,000. The cheapest stake at MYNE is more than double this, at €109,000, and there is no upper limit, and at **Lazazu**, the cheapest stake is over €1 million. MYNE leverages its properties to a maximum of 50%.

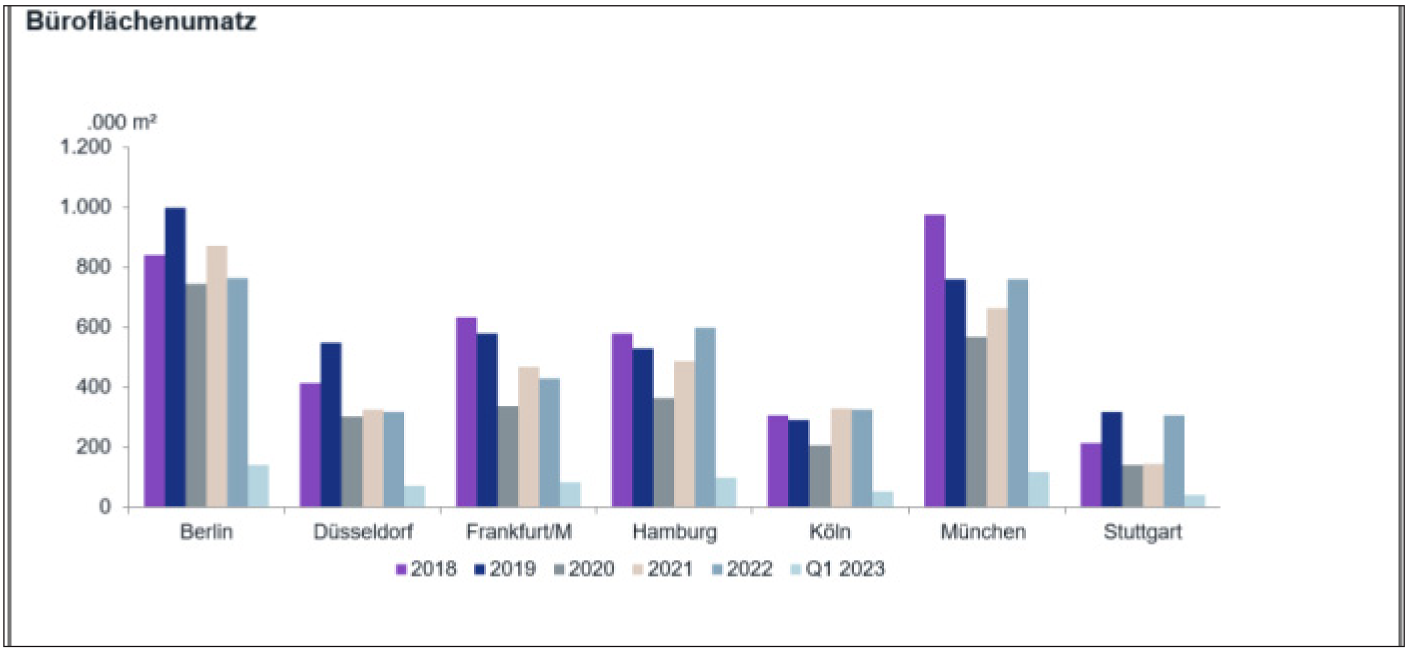
It is a similar story in the US and in Asia. **Pacaso** in the US, which was launched in 2020, enables you to own, for example, a one-eighth share in a multimillion-dollar holiday home of your choosing and enjoy it 44 days per year. In 2021, Pacaso's $125 million Series C fundraise led by **SoftBank** valued the company at $1.5 billion. **Ko** offers a similar model in the Asia-Pacific region.

Fractional ownership is also becoming more popular in the commercial real estate space and there are many fractional ownership real estate-related platforms offering diverse opportunities. **Roofstock** in Oakland, California, was founded by pioneers in the single-family rental space. A couple of years ago, it launched **Roofstock One**, a new investment offering that allows investors to buy shares of single-family rental homes and enjoy potential economic and tax benefits of rental home ownership, without any of the responsibilities of being a landlord. Financing, insurance, leasing, property management and asset management are all handled by Roofstock's team.

'Investor priorities may be changing, and we recognize that the old ways of doing things may no longer apply when it comes to real estate investing,' said **Gary Beasley**, co-founder and CEO of Roofstock. 'With Roofstock One, we're making it frictionless and seamless for investors to reap the potential benefits of real estate investing.'

Over in India, **Upside Investech Networks** focuses on alternate asset investments by embedding technology to enhance transparency in deal discovery, deal assessment, transaction, and asset management. **Strata** in Bangalore invests in high-yield, Grade-A commercial real estate.

Looking ahead, fractional ownership is expected to become even more popular. Thomale believes that COVID has made the idea of owning a holiday even more attractive and his optimism is shared by other PropTechs. A study by **TH Aschaffenburg** and **Blackprint Booster** and **Brickalize** noted that 71% of the companies surveyed from December 2021 to March 2022 said that they had recorded more or noticeably more new business in the past year: In 2021, many of them reported an annual turnover of up to €10,000, whereas last year, many of them saw that rise to €500,000 and up to €2 million, respectively. Overall, 96.6% of the PropTechs surveyed were optimistic about the future and see 'positive signs for their own market development'.

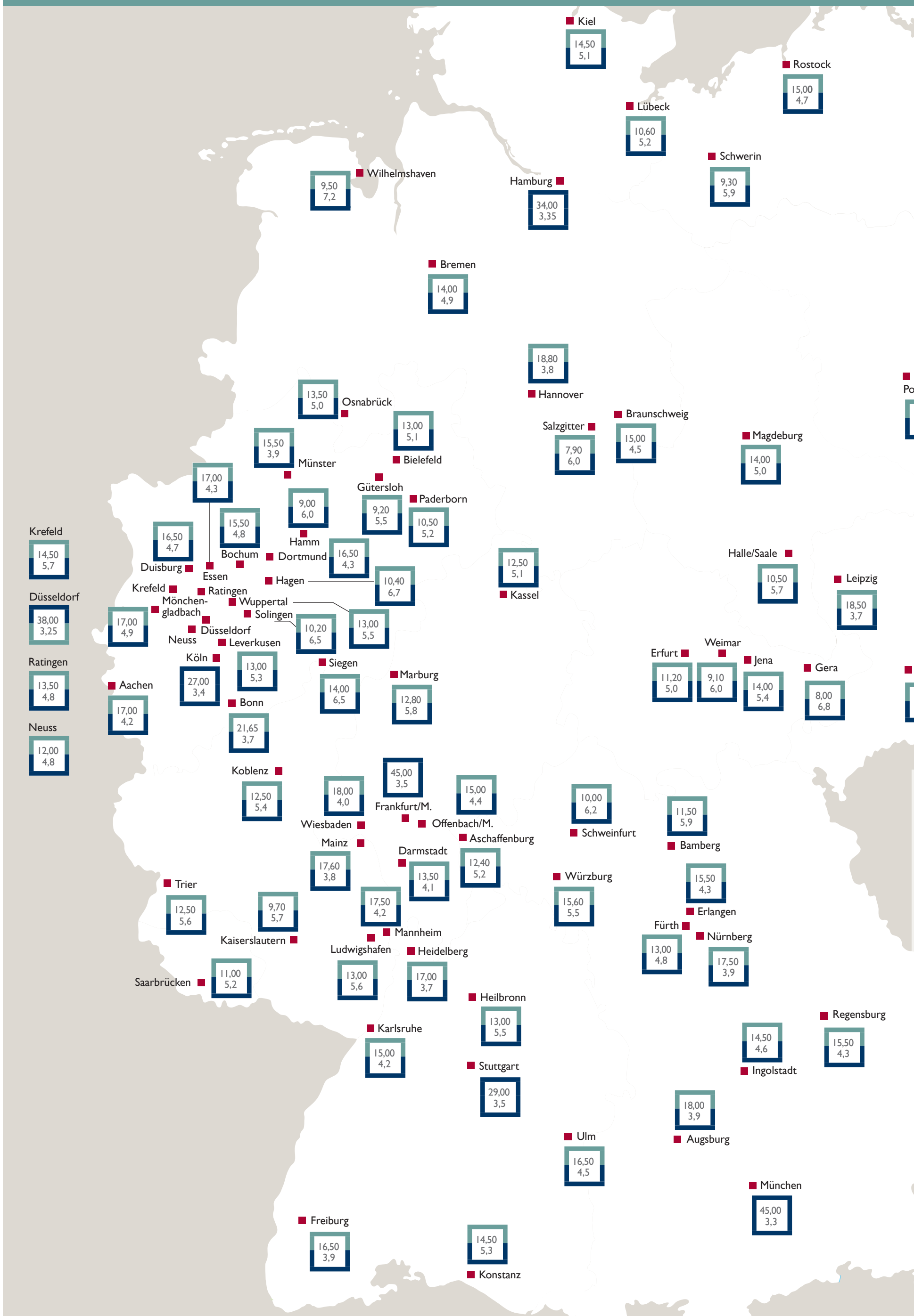


Source: JLL Deutschland

Investmentstandorte Deutschland 2023 Büro – Mieten und Renditen

CATELLA

Die Einpreisung der Zinsänderung und der Pandemie zeigt sich in den Eckdaten der Büromärkte in Q1 2023 erstmals deutlich. Die Renditen steigen fast überall – allerdings bei einer gleichzeitig stark rückläufigen Transaktionsaktivität. Darüber hinaus ist das Phänomen zu beobachten, dass an den TOP 7 Standorten die Spitzenmieten in 2022 und 2023 gestiegen sind – wenngleich lediglich im Premiumsegment „Erstbezug Neubau/manage to green, urban". Dagegen zeigen sich Probleme, welche vor allem in den kommenden Monaten einen deutlichen Abwertungsbedarf nach sich ziehen werden. Dies wird zunehmend bei Bestandsgebäuden in Rand-/Peripherielagen zu beobachten sein.



Spitzenmieten und -anfangsrenditen:

37,29 – Spitzenmiete in €/m²
3,4 – Spitzenanfangsrendite in % (netto)

6-Monats-Trend: steigend / stabil / fallend

Spitzenmiete:
Defintion nach gif e.V.: Die Spitzenmiete umfasst das oberste Preissegment mit einem Marktanteil von etwa 3 % des Vermietungsumsatzes (ohne Eigennutzer) in den abgelaufenen 12 Monaten und stellt hieraus den Median des entsprechenden Berichtszeitraumes dar.

Spitzenrendite:
Die Netto-Anfangsrendite ist die anfängliche jährliche Vertragsmiete abzgl. nicht umlegbarer Kosten im Verhältnis zum Gesamtkaufpreis (Nettokaufpreis zzgl. Erwerbsnebenkosten). Sie wird für City-Lagen ausgewiesen.

2023	Ø Spitzenmiete	Δ 2022/2023	Ø Spitzenrendite	Δ 2022/2023
A-Standorte	37,29 €/m²	9,92 %	3,37 %	24,87 %
B-Standorte	17,03 €/m²	5,09 %	4,16 %	6,59 %
C-Standorte	14,74 €/m²	4,30 %	4,52 %	2,70 %
D-Standorte	12,06 €/m²	5,43 %	5,54 %	0,75 %

Stand: 1.Quartal 2023
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Quelle: Catella Research 2023