

RESIDENTIAL

LIFE IS WHAT **WE** MAKE IT



REPORT 2023

**WHAT MAKES THE GERMAN
HOUSING MARKET TICK?**

Its special features within Europe, as well
as the most important developments and
forecasts at a glance.

REAL ESTATE

“

THE GERMAN HOUSING
MARKET HAS BEEN BOOMING
FOR MORE THAN A DECADE –
NOW RISING INTEREST RATES,
INFLATION AND GEOPOLITICAL
INSTABILITY ARE ACTING AS
A BRAKE. NEVERTHELESS, IT
REMAINS A STABLE ANCHOR
WITHIN EUROPE.

”

JAN-BASTIAN KNOD
Head of Residential Investment
Germany

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CONTENTS

Preface	05
Germany’s residential real estate market in a European context	06
Germany’s demography - demand side	14
Germany’s housing - supply side	24
ESG: sustainable housing	30
Rental market	36
Investment market	42
Conclusion & outlook	48

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FOREWORD

In recent years, the German housing market has been characterised above all by stability and a steep upward trend. Even the Covid-19 pandemic failed to curb housing demand – neither from tenants nor investors. With an investment transaction volume of over EUR 60 billion the residential asset class had a record 2021.

Geopolitical instability and the war in Ukraine brought the turning point in 2022: The rise in interest rates slowed investors and property developers in the implementation of projects, while the energy crisis and inflation made meeting rent payments a major effort for residents. From mid-year the prime yield began to rise, reaching around 2.75 percent by the end of the year – with the rising trend likely to continue. And there is also great uncertainty about the future.

Nevertheless, the German residential market remains highly attractive for investors from Germany and abroad. On the one hand, it is characterised by a particularly low rate of home ownership compared to other European countries, with excess demand in the rental market. On the other hand, thanks to its decentralisation with many economically-strong conurbations throughout the country, Germany enjoys an excellent distribution of risk.

In recent decades, living space itself has also changed significantly in Germany. While the average per capita living space in metropolitan regions is declining every year, it is rising across Germany as a whole. The reason: the aging population and ever-smaller household sizes.

Last but not least, the topics of sustainability and ESG are playing an increasingly important role: Due to the increasing requirements through Article 8 and Article 9 funds, investors are focusing more on certified buildings or those that meet a certain sustainability standard – thus, the demand for such buildings continues to rise.

In this report, we provide an overview of what makes the German housing market special within Europe, which demographic, economic and political developments have shaped it over the last ten years and which prognoses can be derived from these.

We hope you enjoy reading.

Jan-Bastian Knod

Head of Residential Investment
Germany

GERMANY'S RESIDENTIAL MARKET IN A EUROPEAN CONTEXT

THE GERMAN RESIDENTIAL MARKET IS STILL EUROPE'S SAFE HAVEN.

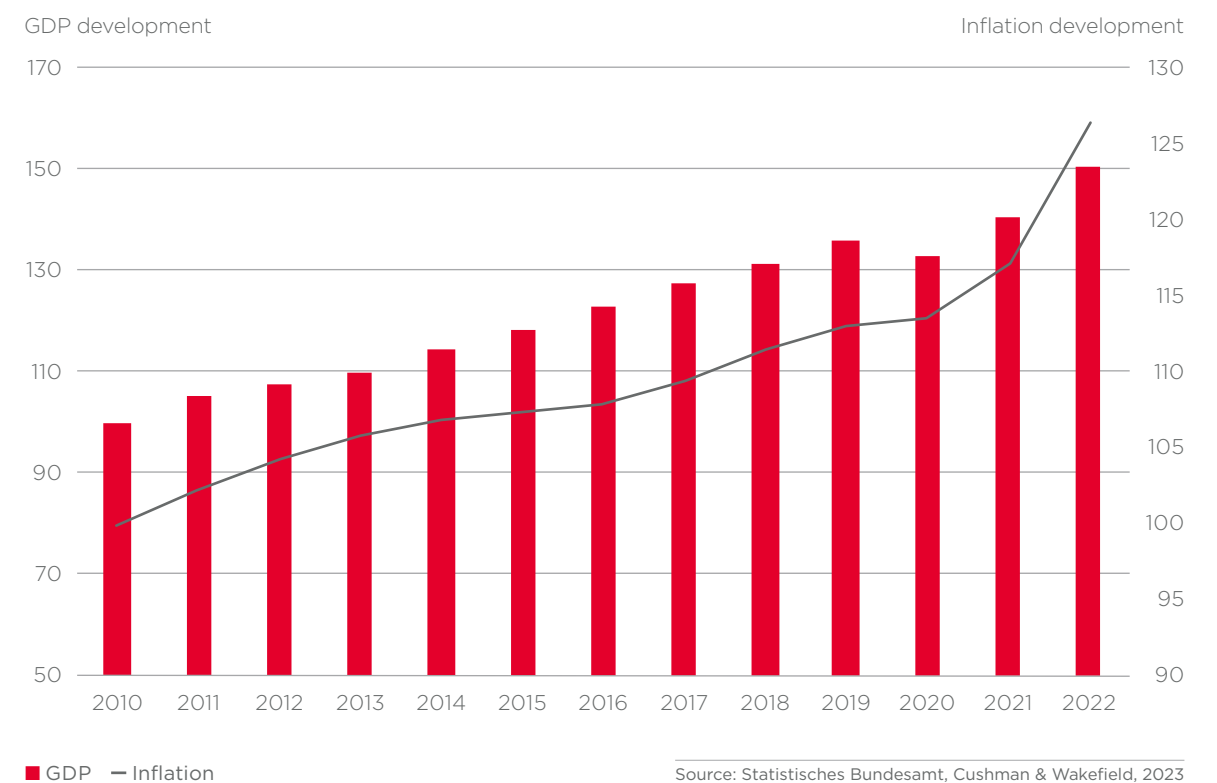
Germany came through the pandemic with comparatively less severe economic consequences. The German housing market also stands out for its low ownership rate and its many decentralised conurbations, which also contribute to its resilience to crises. Smaller household sizes and growing population figures ensure constant demand.

Covid-19 and geopolitical developments hit the economy

The Covid-19 pandemic hit the whole of Europe in the second quarter of 2020 – and led to a global economic crisis: the restrictions imposed to reduce infection rates and stabilise healthcare systems caused GDP to fall sharply in all European countries. However, due to differing measures and crisis management, economic output did not fall to the same extent in every country. In Germany, GDP fell by only around 5.5 percent in 2020, making it one of the best performers in Europe.

In 2022, further disruption was added by the war in Ukraine and associated bottlenecks in the energy supply, with rising interest rates and increasing inflation. The weak economic growth already expected for the year was thus confirmed. In view of these events and their possible consequences, uncertainty levels are high and predictions are difficult.

Development of GDP in Germany



THE GERMAN RESIDENTIAL MARKET IN EUROPEAN COMPARISON

GERMANY AT A GLANCE

51% HOME OWNERSHIP RATE -
VS. 69% IN EUROPE AS A WHOLE

GERMANY'S POPULATION
IS EVENLY DISTRIBUTED
THROUGHOUT THE COUNTRY

94 SQ M AVERAGE LIVING
AREA PER HOUSEHOLD -
VS. 90 SQ M FOR EUROPE

URBAN GROWTH
VS. RURAL EXODUS

43.0 MILLION
APARTMENTS IN
GERMANY IN 2022

1.94 PERSONS
AVERAGE HOUSEHOLD
SIZE - VS. 2.2 PERSONS
FOR EUROPE

INCREASING DEMAND
FOR HOUSING IN
STRUCTURALLY
STRONG REGIONS

RISING NUMBER OF
HOUSEHOLDS DUE TO CHANGES
IN HOUSEHOLD STRUCTURE

18% LIVING COSTS
OVERBURDEN IN 2021

ESG AS A VALUE-ADDING
FACTOR - ESPECIALLY IN TIMES
OF RISING ENERGY PRICES

COMPARISON EUROPE

28% OF EUROPEAN HOUSEHOLDS FEEL
FINANCIALLY BURDENED BY HOUSING COSTS

GERMANY'S RISK ASSESSMENT IS
ONE OF THE BEST IN EUROPE

WESTERN EUROPE IN PARTICULAR IS
CHARACTERIZED BY A HIGH DEGREE
OF URBANISATION

GERMANY'S HOME OWNERSHIP RATE IS
THE SECOND LOWEST IN EUROPE

IN ITALY, HOUSING COSTS ARE ONLY 17%
OF DISPOSABLE INCOME

59% OF PEOPLE IN THE UK LIVE IN
URBAN CENTRES

RISK ASSESSMENT, POPULATION GROWTH AND HOUSEHOLD STRUCTURE

Germany – Europe's safe haven

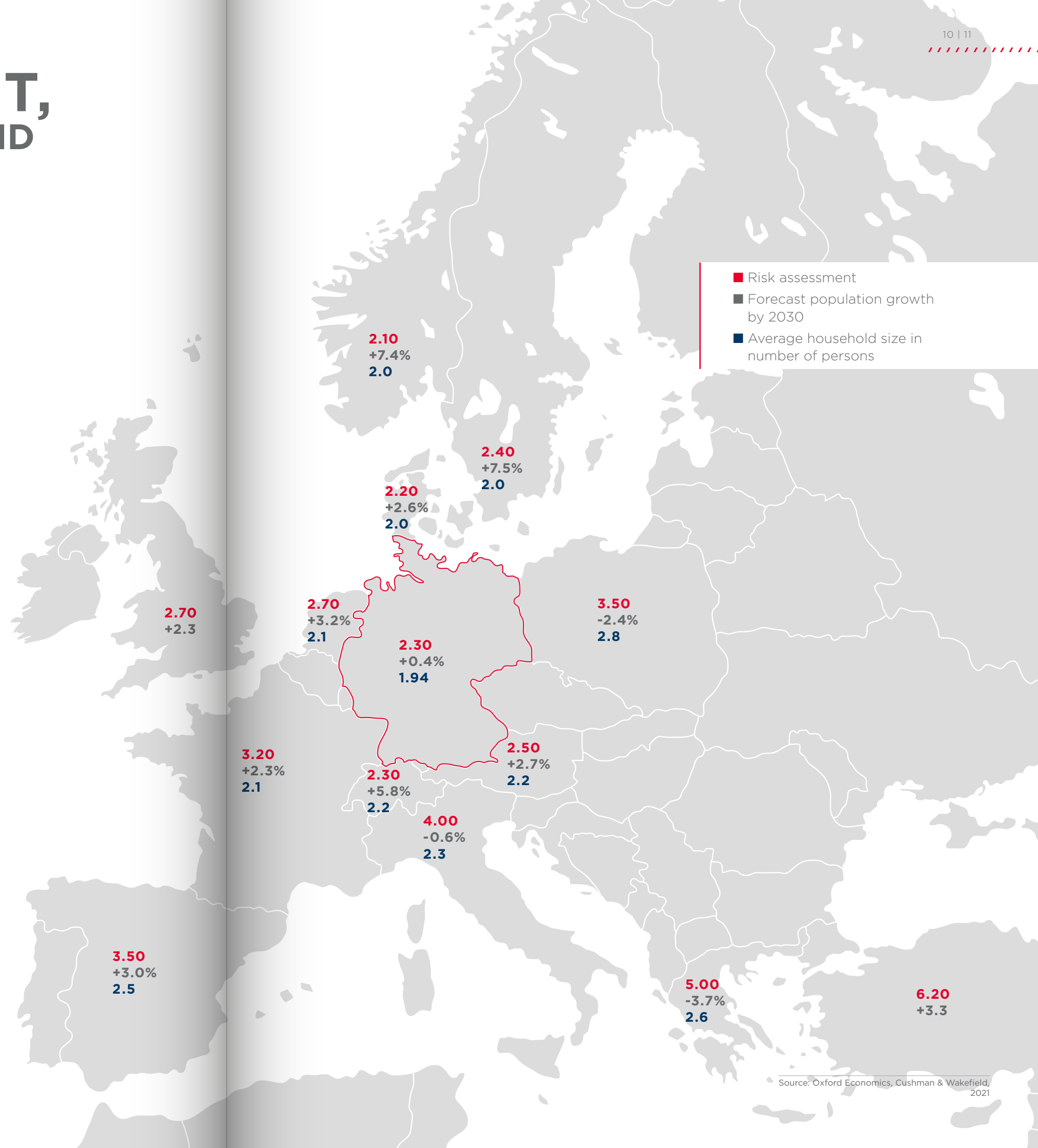
The risk assessment of countries within Europe varies considerably. Germany repeatedly achieved a comparatively low investment risk rating, thanks to its broad-based, future-oriented economy and low debt. The economic impact of the Covid-19 pandemic also varied across Europe, but countries recovered quickly overall in 2021. In 2022, macroeconomic influences such as the Ukraine war, rising interest rates and high inflation dominated. These severely affected all European countries – yet Germany remained a stable anchor for the other states.

Europe's population is growing

For Europe as a whole, further population growth is forecast until 2030. Sweden, Norway and Switzerland's populations are growing fastest. Germany remains stable at over 83 million people. Natural growth is negative in many European countries, but increasing migration from other countries is sustaining a further increase in population and thus an increase in housing demand.

The number of households is increasing throughout Europe

The number of private households is also growing throughout Europe. This development is due to the reduction in average household sizes, as a family's different generations increasingly live in separate households – which in turn increases demand. Germany stands out with a particularly small average household size of 1.94 persons, Turkey is at the opposite end of the scale with 3.3 persons.



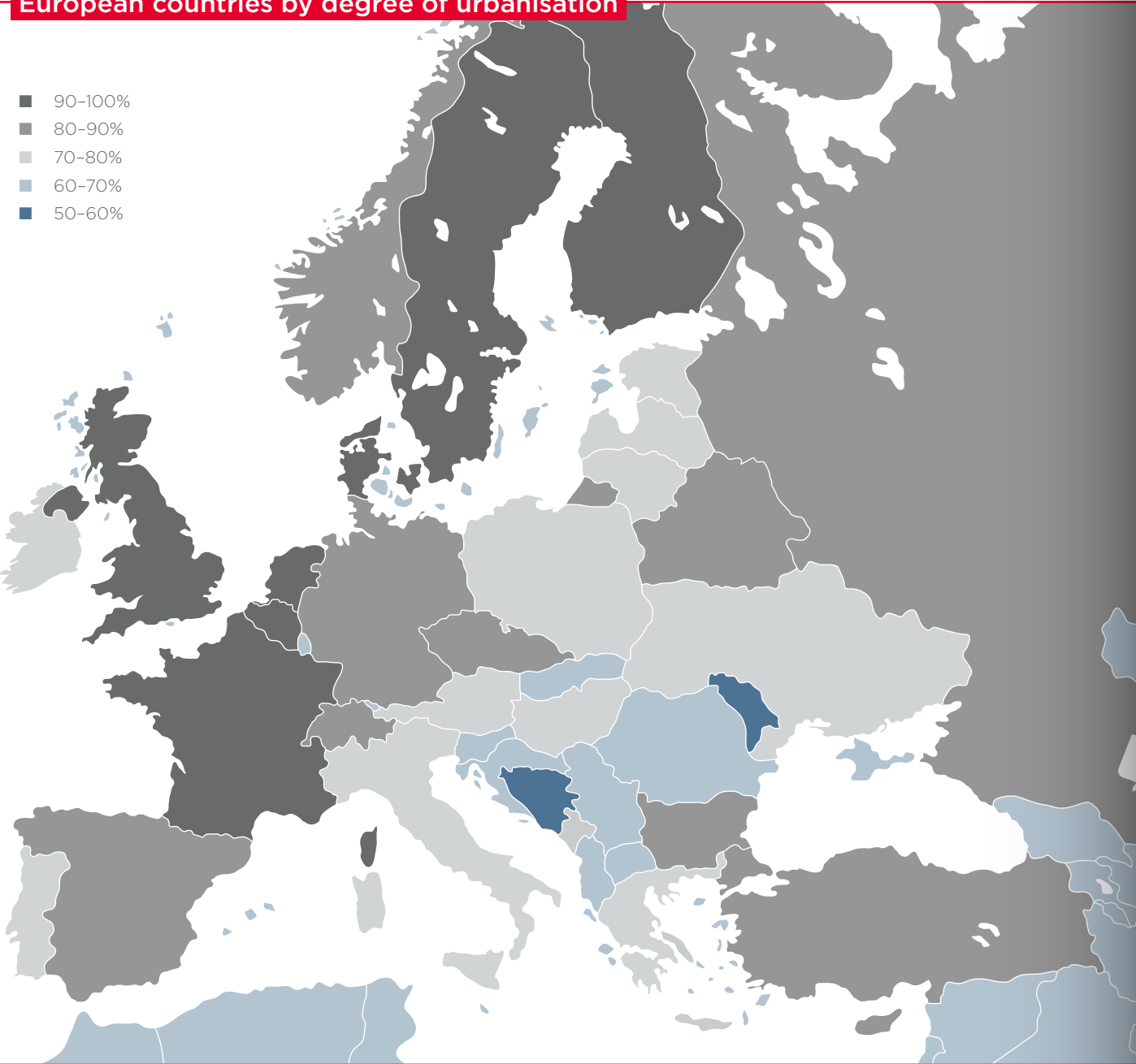
THE HOUSING MARKET IN EUROPE

Germany's population is distributed throughout the country

Today, most people in Europe live in cities or suburbs. Many countries have a main centre where a large proportion of the population lives. Germany paints a different picture: the population distribution is decentralised across the country in the many smaller cities and towns, and more people live in the suburbs of large cities than in the cities themselves. Rising housing costs due to housing shortages in large cities and increasing mobility are promoting this decentralised structure.

European countries by degree of urbanisation

- 90-100%
- 80-90%
- 70-80%
- 60-70%
- 50-60%



Housing costs vary significantly between counties

In Europe, housing costs accounted for an average of 26 percent of disposable income in 2020 – these comprise the gross rent for tenants and the financing costs for buyers. The overburden rate indicates how many households spend more than 40 percent of their income on housing costs. The European average is around 24 percent for tenants who pay market level rents. Germany, the largest European rental market, is significantly lower at 18 percent.

A Europe-wide household survey conducted by Eurostat on the financial burden of housing costs in 2019 showed that **around 28 percent of European households feel heavily financially burdened by housing costs**. Scandinavia and Germany are at the lower end at seven to twelve percent, Poland and Greece, with over 50 percent, are at the top. In recent years, this was mainly due to lower construction activity, higher construction costs and rents, as well as rising inflation and energy prices. This is likely to continue, so that financial overburdening will affect ever more households in Europe and Germany in the future.

Housing costs and overburden in European comparison

Country	Living costs as a proportion of disposable income	Households with high level of living costs burden	Proportion of tenants paying market level rent	Overburden proportion
Italy	17%	38%	19%	29%
Spain	17%	47%	16%	37%
France	18%	23%	20%	18%
Poland	18%	54%	4%	27%
Turkey	19%	14%	26%	33%
Sweden	22%	8%	36%	20%
Netherlands	23%	9%	30%	27%
United Kingdom (2018)	25%	17%	30%	38%
Germany	26%	12%	41%	18%
Denmark	27%	7%	39%	31%
Greece	39%	53%	20%	83%

Source: Eurostat, Cushman & Wakefield, 2021

Germany is Europe's largest rental market

Germany has the largest rental market in Europe. The home ownership rate is around 69 percent on average in Europe, but only about 51 percent in Germany – only Switzerland has a lower rate, at 42 percent. The lesser importance of owner-occupancy in Germany is due, on the one hand, to social housing construction after the Second World War and, on the other, to tenancy law and the associated concept of comparative rent levels. In other countries, home ownership is also often the largest, and almost the only, value-preserving asset class.

Nevertheless, the growing desire for mobility across Europe is leading to declining home ownership rates. Especially in large cities, the ownership rate is low throughout Europe. There are several reasons for this: buying apartments in large cities means a considerable financial outlay for a large proportion of the population, and many people prefer the mobility and location independence that rented accommodation makes possible.

GERMANY'S DEMOGRAPHY THE DEMAND SIDE

**DESPITE CRISES, THERE
IS EXCESS DEMAND FOR
HOUSING IN GERMANY.**

This results from immigration and internal migration as well as the increasing number of households and particularly affects the structurally strong cities.

Decentralised Germany: Impact on the housing market

Germany's decentralised population structure can be seen both in the large conurbations of the metropolitan regions and in cities and major towns outside the conurbations, as evidenced by the population density per square kilometre. This has a major impact on the housing market: the top-7 cities are growing steadily and are causing the demand for housing to continue to rise, but the cities outside the metropolitan regions are also

highly attractive and growing. Due to the housing shortage in the top-7 cities, the conurbations are also expanding further.

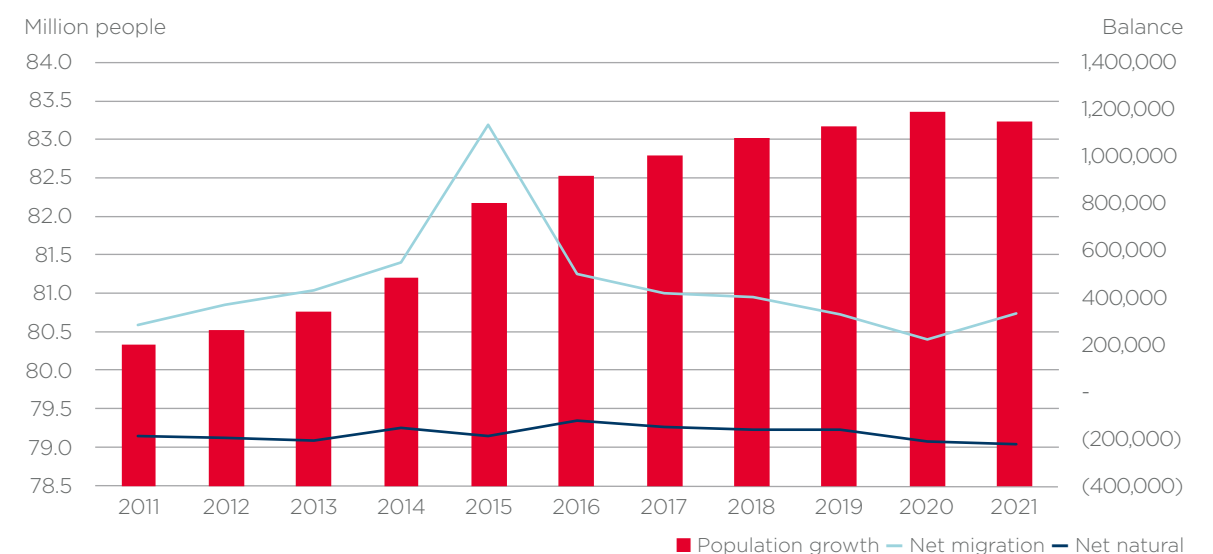
Germany's decentralised structure means that the population and households grow at different rates – and thus also that forecasts of housing demand differ – depending on the city, state or region.

Migration will sustain population growth until 2026

Population growth in Germany has been driven primarily by immigration since 2011. In particular, the high number of refugees arriving in 2014 to 2016 led to a strong increase in population. The natural population balance, on the other hand, has been negative for many years, with fewer births than deaths. Population growth will

continue to be largely shaped by migration in the future. In 2021, for example, a slight decrease in population of 0.2 percent was recorded. However, due to increasing migration from abroad, population growth is expected in the coming years.

Population growth in Germany 2011-2020



Source: Statistisches Bundesamt, Cushman & Wakefield, 2023

CITIES

IN UPWARD TREND

Immigration and internal migration sustaining growth of major cities

While the population is declining throughout Germany as a whole, it is growing in the major metropolitan regions and cities. In the past, there were two main drivers for this: on the one hand, the greater mobility of young people entering education and careers and, on the other hand, immigration from abroad.

Since 2010, Germany has recorded a permanently positive migration balance with more arrivals than departures. The peak was registered in 2015 with a net immigration of over 1.1 million people, which was mainly due to refugee arrivals. Other important reasons for immigration are the comparatively good educational and labour market opportunities in Germany.

In addition to migration, internal migration is driving the growth of metropolitan regions. In particular, students (18 to 24 years) and career entrants (25 to 29 years) strive for the top-7 and major regional cities. In general, the under-30s are increasingly migrating from rural and sparsely populated districts to urban regions – also due to the educational and job opportunities offered by cities.

Retirees, on the other hand, reverse the trend and prefer more rural regions to the big city. Families are the least mobile: they tend to be sedentary and have a stronger attachment to their place of residence than the younger and older groups.

Arrivals and departures per 100 inhabitants

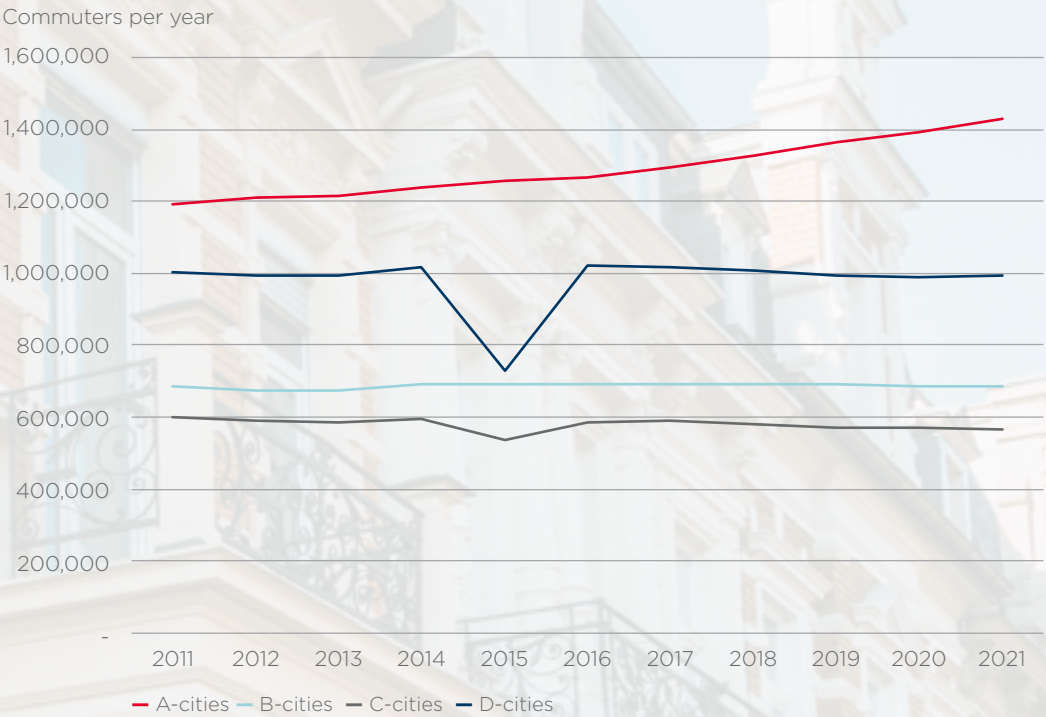
	Top-7 cities	All cities	Urban districts	Rural districts with densification approaches	Sparsely populated rural areas
Students	+4.23	+4.14	-1.46	-2.64	-2.79
Young professionals	+3.02	+0.50	-0.22	-0.43	-0.38
Families	-1.43	-1.10	+0.42	+0.57	+0.57
Younger retirees	-5.20	-0.30	-0.01	+0.18	+0.28
Older retirees	-4.14	-0.21	+0.04	+0.12	+0.13

Source: BBSR, Cushman & Wakefield, 2023

Job shift trend leading to more commuting

Ever more people in Germany are commuting. Above all, the shifting of jobs to the A-cities is contribution to this trend. The Covid-19 pandemic has also further strengthened towns in the suburban belts around the cities, as workers are more likely to work from home and commute further.

Commuter growth in Germany



Source: Statistisches Bundesamt, Cushman & Wakefield, 2023

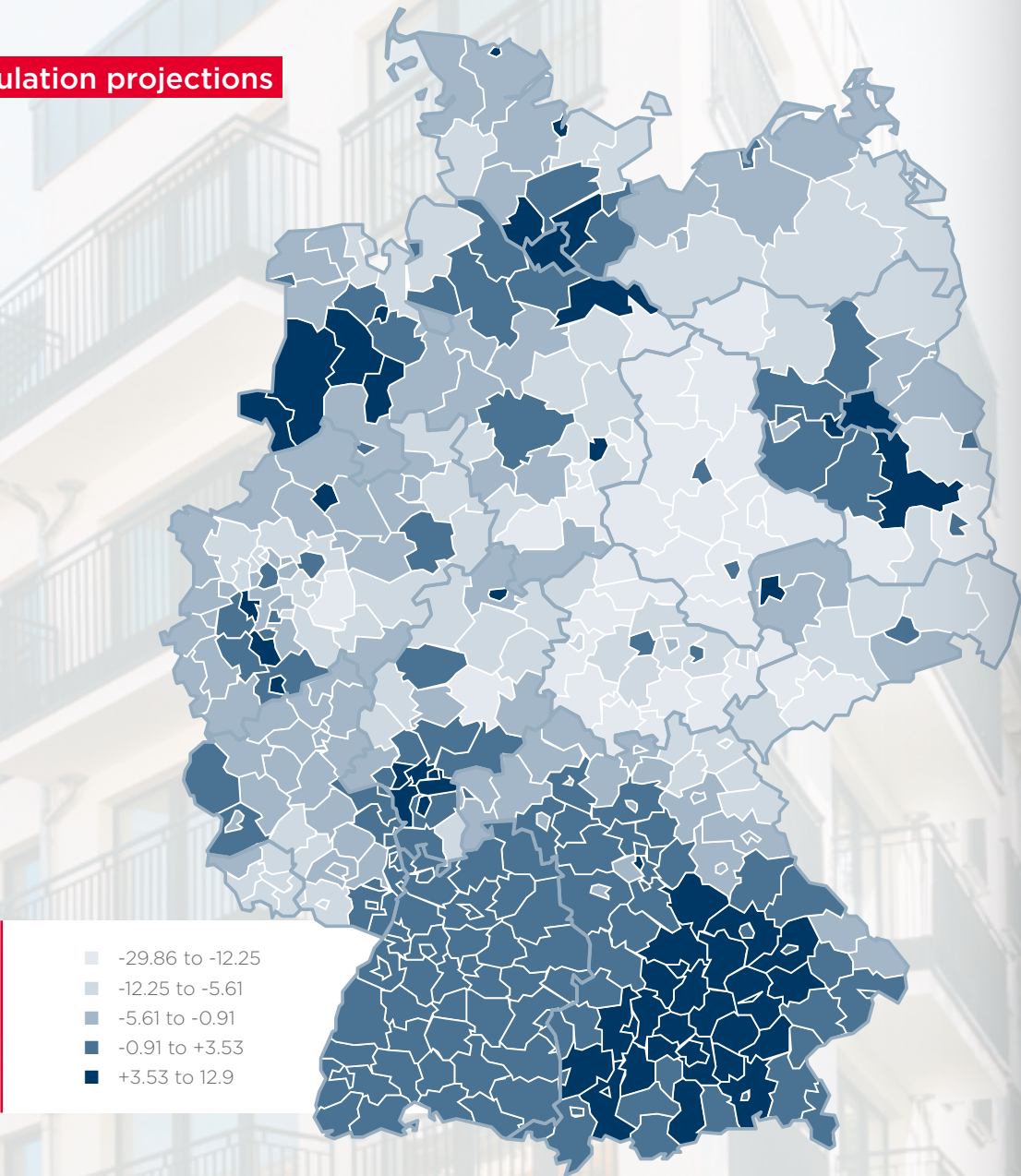


POPULATION DEVELOPMENT AND HOUSEHOLD STRUCTURE

Structurally strong regions report positive population forecasts

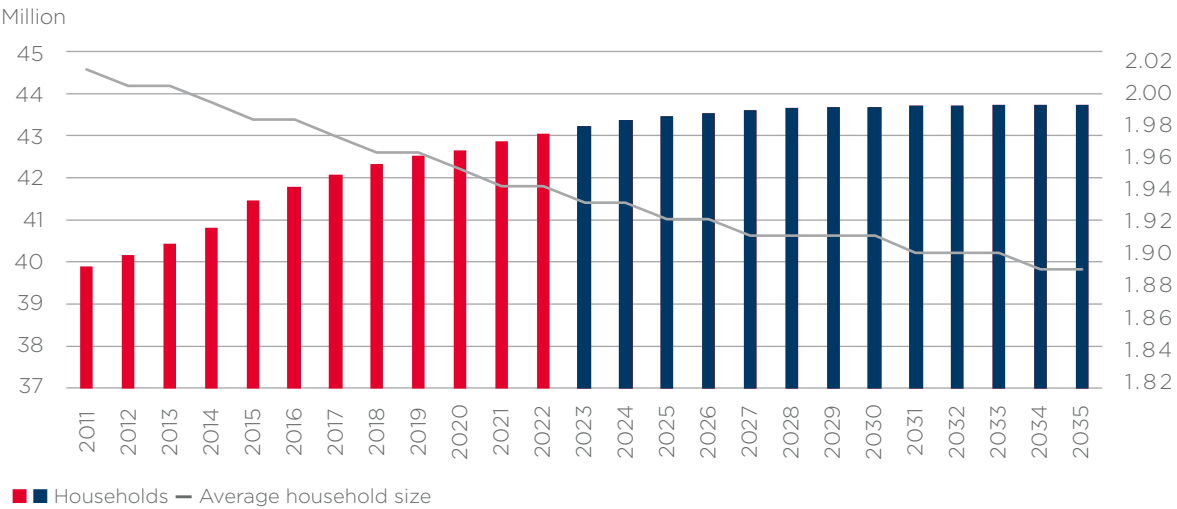
The population forecast to 2035 shows clear differences between structurally strong and weak regions. While cities continue to grow, “rural exodus” prevails elsewhere – this is especially true of the top-7 cities and their surrounding regions. There are also differences between west and east: The federal states of Thuringia, Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania in particular are struggling with declining populations.

German population projections until 2035



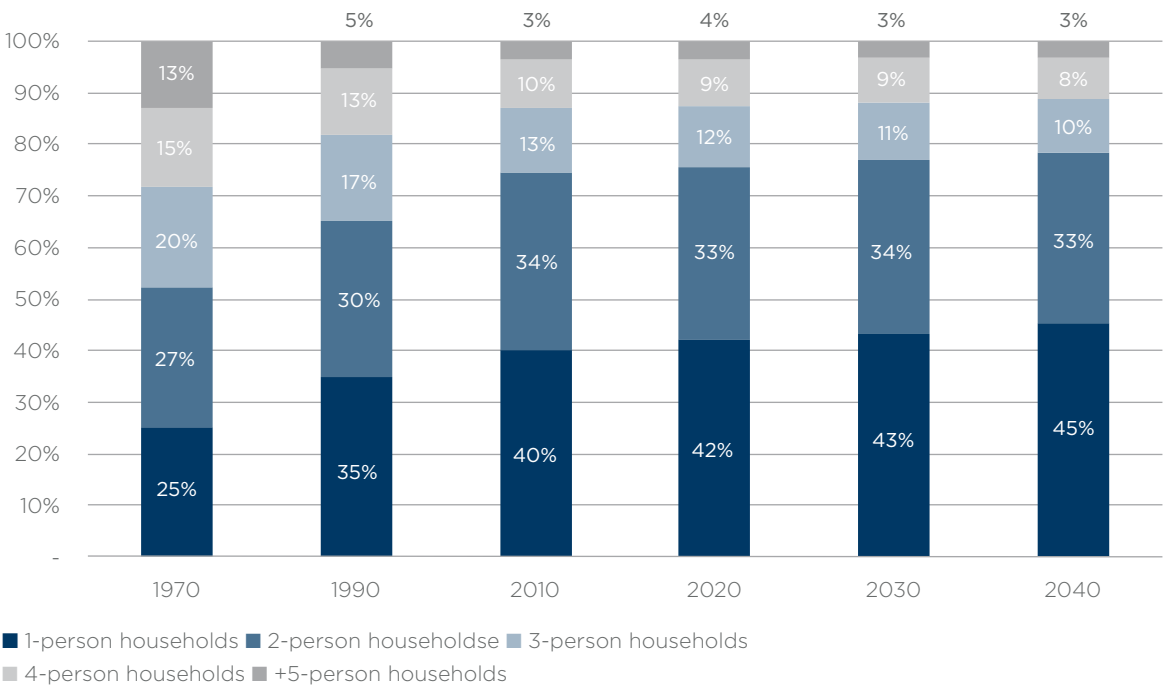
Source: Statistisches Bundesamt, Cushman & Wakefield, 2023

Trends and forecasts on the number and average size of households



Source: Statistisches Bundesamt, Cushman & Wakefield, 2023

Development and forecast by household size



Source: Statistisches Bundesamt, Cushman & Wakefield, 2023

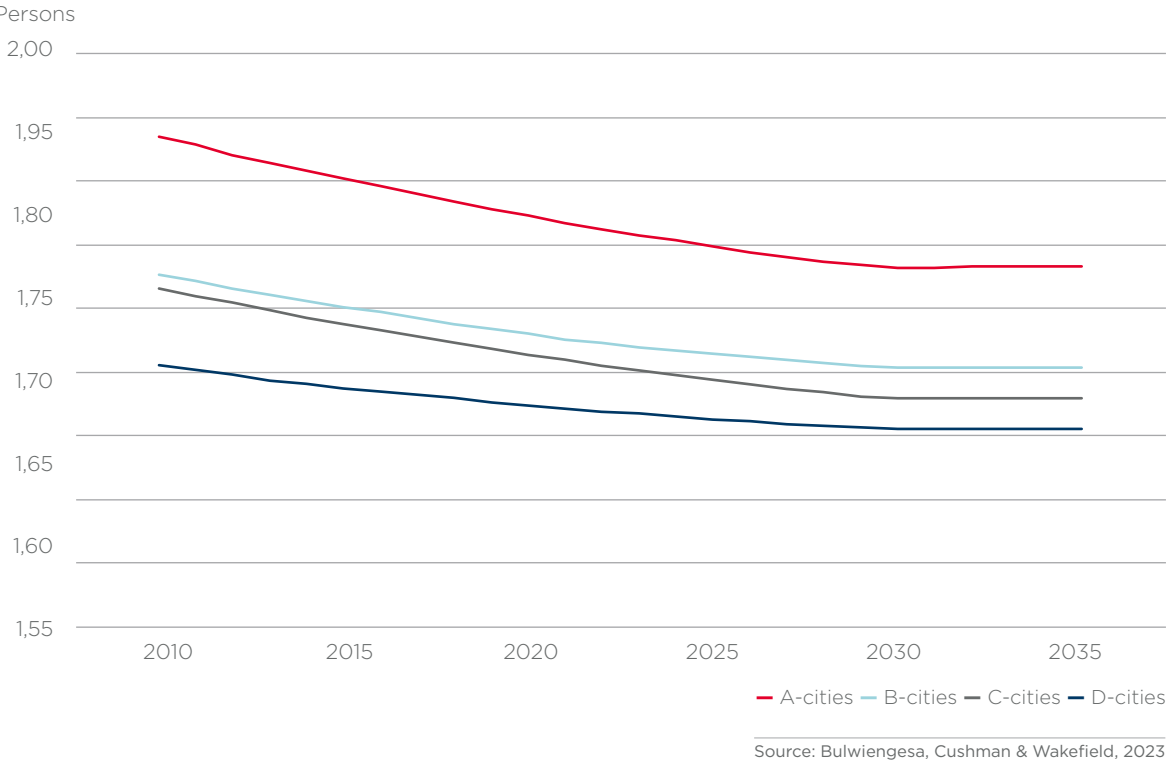
Households are shrinking in size while increasing in number

The number of households in Germany has been growing strongly for years. The main reason is the declining average household size: In 2021, this was around 1.94 people per household and is expected to fall to 1.89 by 2035. The proportion of one- and two-person households is thus growing, while larger households are becoming rarer.

Household size also varies by region: households in A-cities are almost 0.15 persons smaller than in D-cities. Nevertheless, the average size is also decreasing in the B-, C- and D-cities.

THE DEMOGRAPHIC SHIFT IS INFLUENCING HOUSEHOLD SIZE

Development and forecast of average household size by city category



Age shift of the population

2021
2030

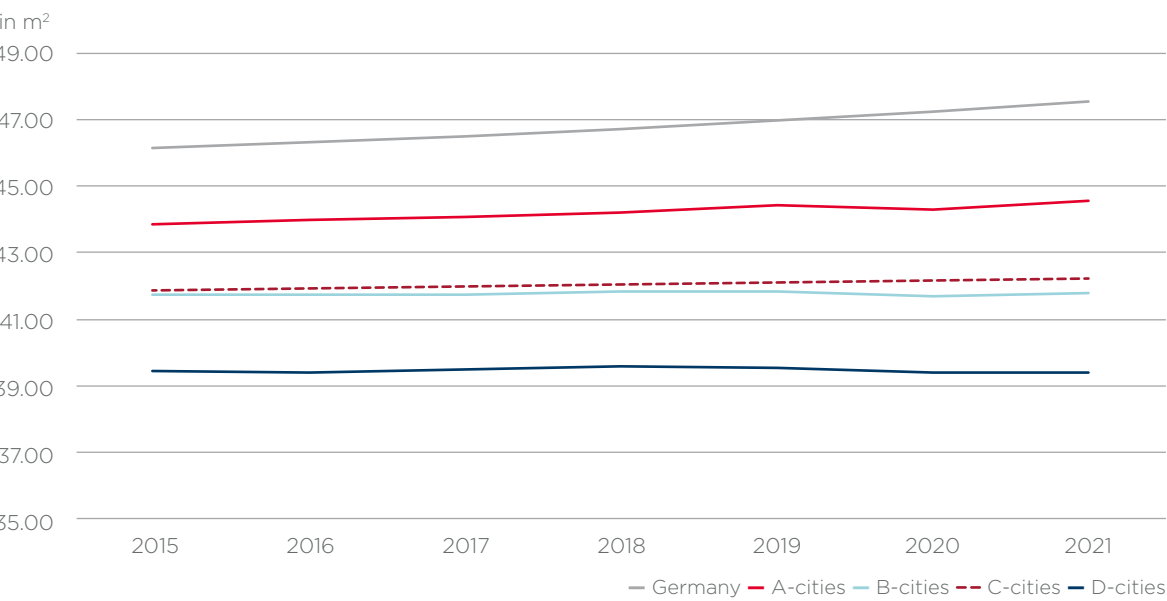
0-20 years 20-65 years 65-79 years 80+ years

Another reason for shrinking households is the ageing population: While 20- to 65-year-olds accounted for 58 percent of the total population in 2021, it is expected to be 5 percent less in 2030. On the other hand, the proportion of people over 65 years of age, who live predominantly in one- and two-person households, is growing. As a result, the demand for housing and the living space per capita increase.



HIGH LEVEL OF DEMAND IN THE A-CITIES

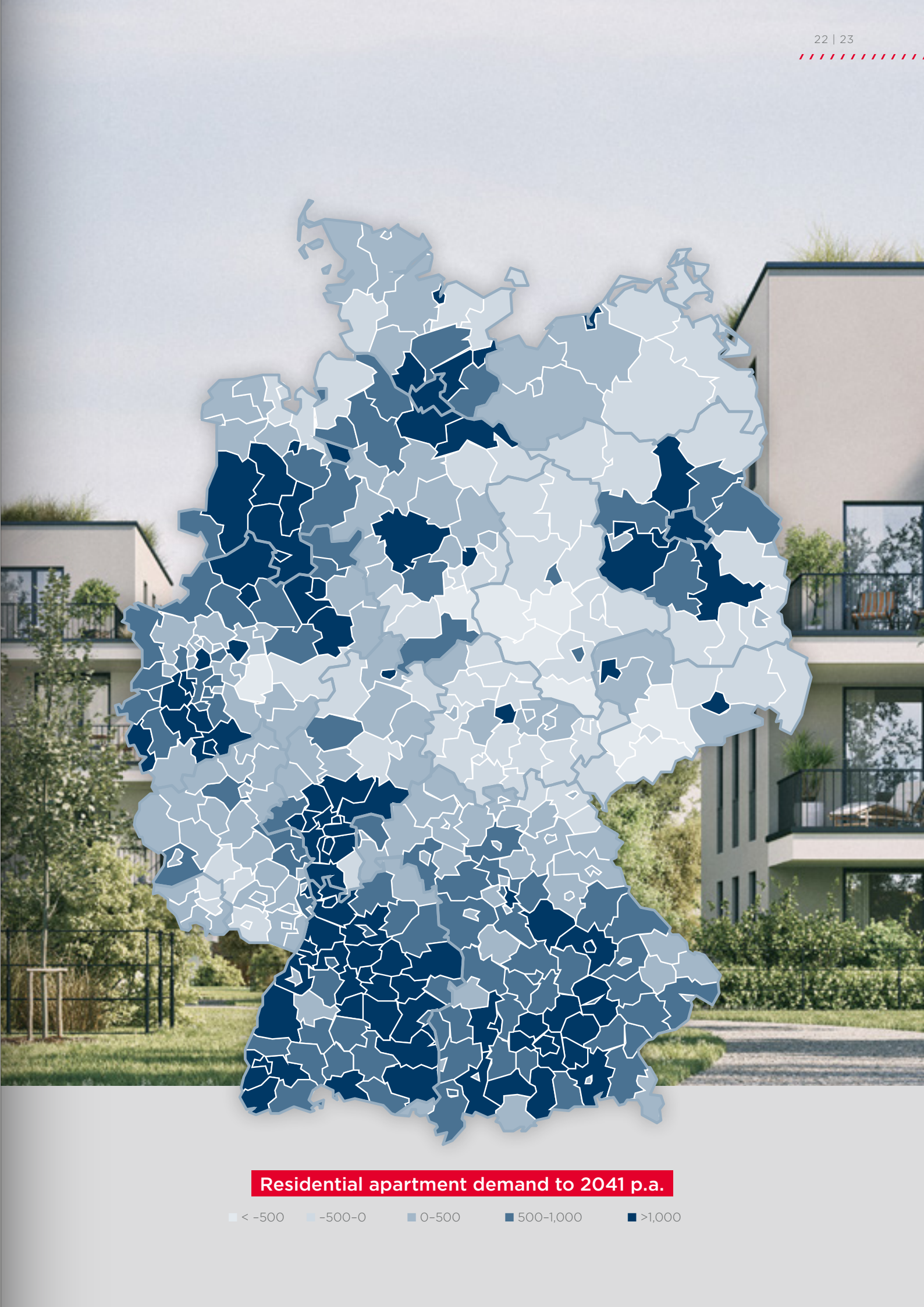
Development of living space per head by city category



Source: Bulwiengesa, Cushman & Wakefield, 2023

For Germany as a whole, the average living space per capita is 47.5 square metres. There are clear differences between structurally strong and weak regions: **For example, people in A-cities live in apartments which are on average around five square metres smaller than in D-cities.** The reason is the lack of building land in the urban area and the thus smaller proportion of single-family houses with a larger total area. Nevertheless, there has been a slight increase in per capita living space, especially in the B-, C- and D-cities. On the one hand, this is due to smaller household sizes, on the other hand, living space is becoming increasingly important to people. This trend has been further reinforced by the Covid-19 pandemic.

The demand for living space is already facing a shortfall of supply. In addition to the pent-up demand resulting from the current shortage, additional demand is forecast for the coming years. A reversal in the trend is conceivable if the energy crisis is extended over a longer period – because in times of high energy costs, smaller apartments which require less heating are sought after.



Residential apartment demand to 2041 p.a.

< -500 -500-0 0-500 500-1,000 >1,000

GERMANY'S HOUSING SUPPLY SIDE

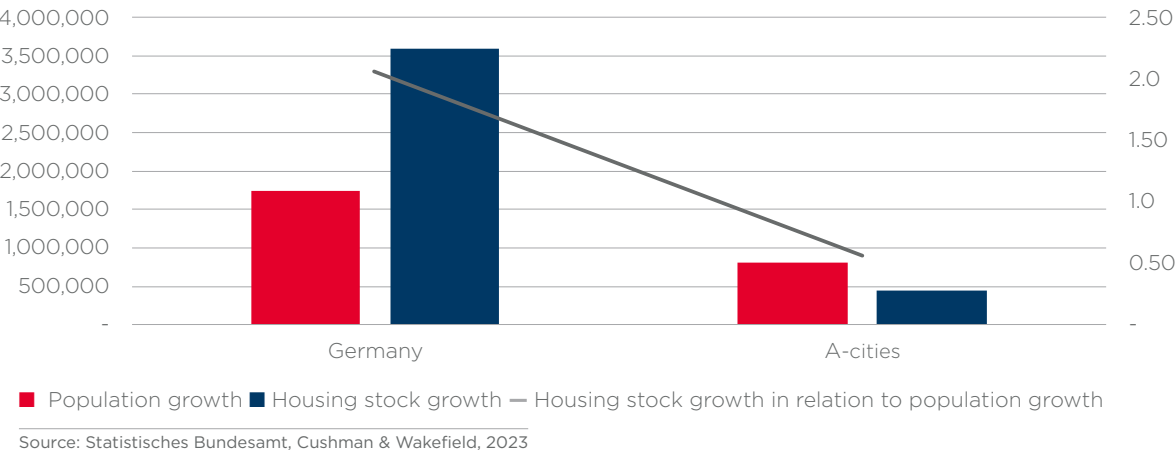
SEVERE COMPLETION GAP IN THE TOP-7 CITIES.

Overall, Germany's housing stock is growing. However, higher construction and consumer prices are slowing the completion of approved projects. In order to counter the housing shortage, the trend is moving away from single-family homes towards multi-family buildings. Nevertheless, in many places the demand is not being met.

The housing stock is rising – but not fast enough everywhere

The housing stock is growing throughout Germany, but not at the necessary pace everywhere. What looks like a good ratio overall does not apply to the tier-A cities: between 2011 and 2021, the number of inhabitants in these urban areas grew faster than apartments were being built, so that only 50 percent of the growth was covered by additional apartments.

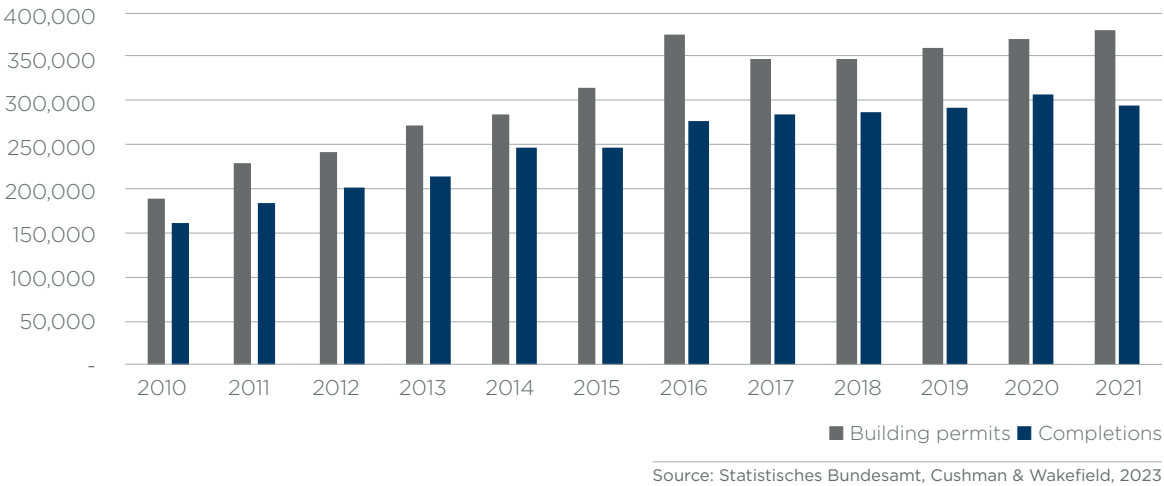
Population and housing stock from 2011 to 2021



More building permits than completions

Since 2010, the number of building permits granted for apartments has been growing, as has the space completed. However, there is currently a massive completion gap, which is fuelled by construction postponements and increased construction costs. The higher number of permits and completions is therefore still not covering the demand for housing, especially in the top-7 cities.

Numbers of building permits issued and completions



NUMBERS OF BUILDING PERMITS ISSUED AND COMPLETIONS

Development in the top-7 cities

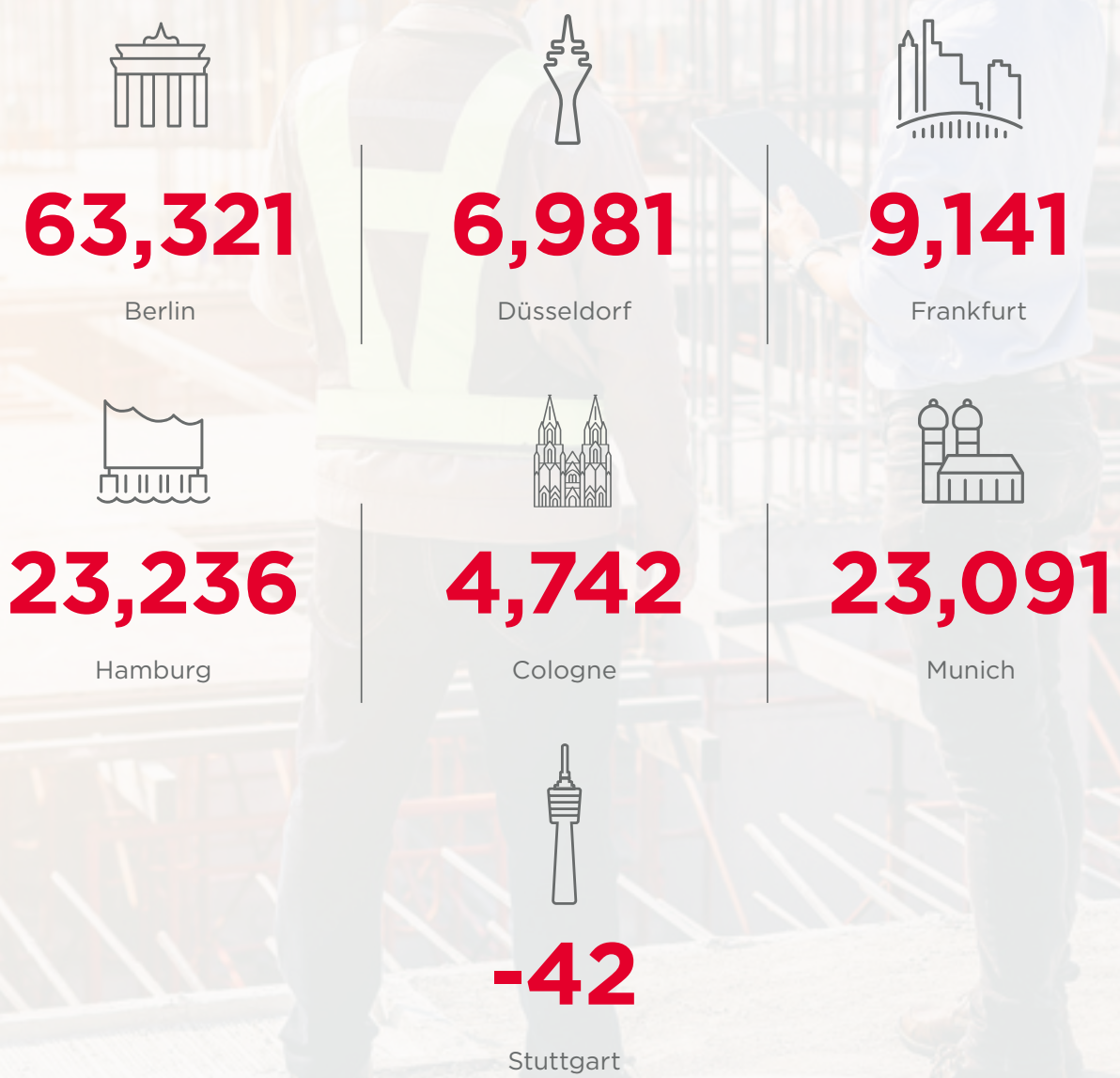
CONSTRUCTION APPROVALS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	SUM (2011-2021)
Berlin	5,527	7,571	9,873	16,098	17,814	21,076	21,472	20,739	19,499	17,849	17,005	157,518
Düsseldorf	608	1,557	1,969	2,443	1,122	3,232	2,875	2,488	3,742	2,560	1,938	22,596
Frankfurt (Main)	3,772	3,664	4,900	3,467	4,105	4,227	4,480	5,493	3,864	2,816	4,263	40,788
Hamburg	4,747	7,327	8,648	9,731	7,687	9,651	11,335	10,470	10,851	9,499	9,244	89,946
Cologne	2,982	2,757	2,568	3,473	3,767	3,803	2,327	2,942	2,409	3,068	3,050	30,096
Munich	7,349	6,690	6,100	7,627	7,489	8,650	11,910	10,992	9,819	10,204	7,953	86,830
Stuttgart	1,515	1,316	1,409	1,340	1,677	2,010	1,198	1,840	1,637	1,214	1,514	15,156

CONSTRUCTION COMPLETIONS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	SUM (2011-2021)
Berlin	3,499	4,180	4,526	7,069	8,704	10,608	12,785	14,327	16,769	14,704	14,433	97,171
Düsseldorf	411	1,041	1,267	2,182	947	1,985	2,072	2,028	1,996	1,800	1,982	15,729
Frankfurt (Main)	1,905	2,144	2,768	3,556	4,076	3,472	4,047	3,244	3,941	3,371	3,292	32,524
Hamburg	3,307	3,309	5,952	6,086	7,665	7,050	6,828	9,700	9,079	10,640	6,966	69,616
Köln	2,377	2,968	2,992	3,435	2,908	3,095	2,055	3,402	2,030	1,801	2,248	27,063
München	5,570	4,777	6,791	6,204	5,678	6,729	7,767	8,502	6,663	7,364	7,055	66,045
Stuttgart	1,249	1,602	1,292	1,599	1,837	1,752	1,960	1,604	945	1,376	1,324	15,216

Source: Bulwiengesa, Cushman & Wakefield, 2023

Completion gap

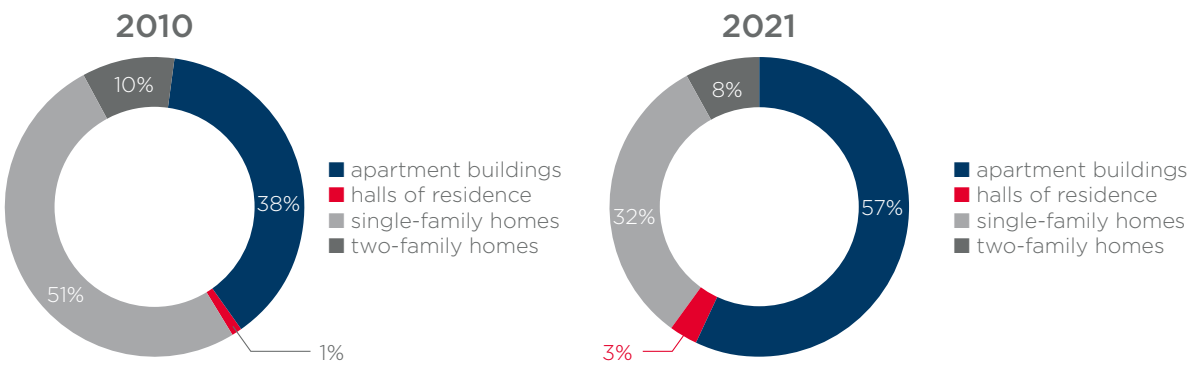
The enormous completion gap in the top-7 cities mainly affects Berlin, Hamburg and Munich. This is due to the strong population growth and the high demand for living space in central locations.



Difference between building permits and completions between 2011 and 2021

CONSTRUCTION COSTS ARE RISING

Building completions by type of building

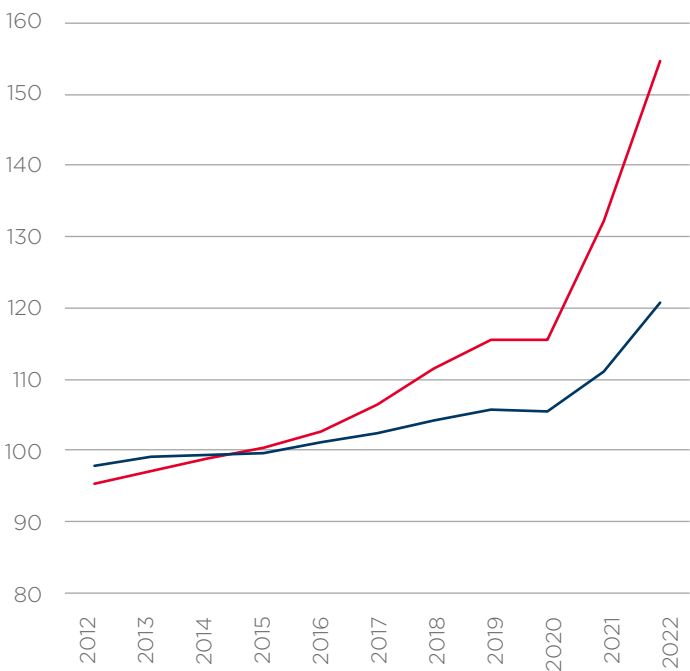


Source: Statistisches Bundesamt, Cushman & Wakefield, 2023

Trend towards multifamily homes

Fewer single-family homes, more multifamily apartments buildings - this reaction to the housing shortage is currently evident throughout Germany: While the proportion of completed single-family homes was 50 percent in 2010, it fell to 32 percent in 2021. In comparison, the proportion of multi-family apartment buildings increased by almost 20 percentage points. Multifamily buildings thus accounted for more than half of all completed residential dwelling units.

Construction price and consumer price index (CPI)



— Construction cost index — Consumer price index

Construction costs have risen sharply

The construction price index and consumer price index rose at a similar rate until 2015, whereafter they diverged: The construction price index rose rapidly and did not slow until 2020. Accordingly, the high construction costs also had an impact on rental and purchase prices. However, due to the Covid-19 pandemic, the construction price index diverged further and continued its sharp rise into 2022.

Source: Statistisches Bundesamt, Cushman & Wakefield, 2023



The regional factors to be considered in the construction cost index show that **large cities are particularly affected by high construction costs.**

Regional factor in Germany and selected cities 2022

1.000	1.100	1.007	0.984	1.573
GERMANY	BERLIN	FRANKFURT AM MAIN	COLOGNE	MUNICH

Source: BKI, Cushman & Wakefield, 2023

ESG: SUSTAINABLE HOUSING

THE RELEVANCE OF
SUSTAINABILITY TO REAL
ESTATE INVESTMENT IS
INCREASING MASSIVELY.

The real estate industry is one of the major drivers of climate change. Stricter EU regulations, higher energy prices and the resumption of KfW's subsidy programmes provide strong incentives for refurbishment and energy-efficient new buildings.

Resource guzzler real estate

Sustainable and environmentally friendly solutions are becoming increasingly important in the real estate sector, which accounts for around 40 percent of energy consumption and around 36 percent of CO₂ emissions in the EU. The public and politicians are therefore calling for concrete measures.

BUILDINGS CONTRIBUTE:



1/6

of total potable water
consumption



2/5

of the consumption
of all raw materials



1/4

of the total
timber clearing



40%

of global energy consumption
is by the construction industry



36%

of all EU CO₂ emissions are
from the construction industry

ESG

ON THE EU'S AGENDA

EU action plan drives more sustainable investment

For a long time, ESG measures were largely for PR purposes, but the momentum around sustainable investments has increased enormously in recent years. Especially since the publication of the EU action plan “Financing Sustainable Growth”, the importance of ESG in the risk management of real estate companies is steadily increasing.

As part of the Action Plan, two EU regulations have been introduced to channel capital flows into sustainable investments: The “Sustainable Finance Disclosure Regulation” (SFDR) and “Taxonomy Regulation 2020/852” require the disclosure and classification of sustainability aspects so that environmental and social aspects are taken into account alongside future return expectations.

The EU regulations mean that real estate on the housing market is becoming both more environmentally friendly and more modern as well as more efficient. At the same time an effective ESG strategy can

reduce portfolio risk, which in turn pays off in long-term rental growth and low vacancy rates.

The impact of sustainability risks must be considered both in existing properties and in future real estate investments. As a result, fund and asset managers will have to work increasingly closely with operational participants along the value chain to meet the challenges of quantifying sustainability and disclosure requirements. At the same time, a uniform EU classification system for ESG investment criteria is still lacking. As a result, the market is still dominated by non-ESG funds, although investor interest in sustainable products is steadily increasing.



PRICE RISES AND INCENTIVES PUSH ENERGY EFFICIENCY

The increase in energy prices is leading to higher manufacturing and heating costs – and accelerates refurbishments and efficient new construction

Gas prices provide a clear example of global increases in energy costs. In 2022, gas prices on the world market have skyrocketed due to geopolitical events such as the war in Ukraine and Russia’s tight control of natural gas – with consequences for both the global market and private households.

For example, the costs of many manufacturing processes have risen sharply, which, in addition to the existing supply bottlenecks, further complicates the procurement of building materials and slows new construction projects. For households, the high rent levels of recent years is a further burden: The high energy prices mean that in buildings with gas heating the ancillary costs are rising sharply.

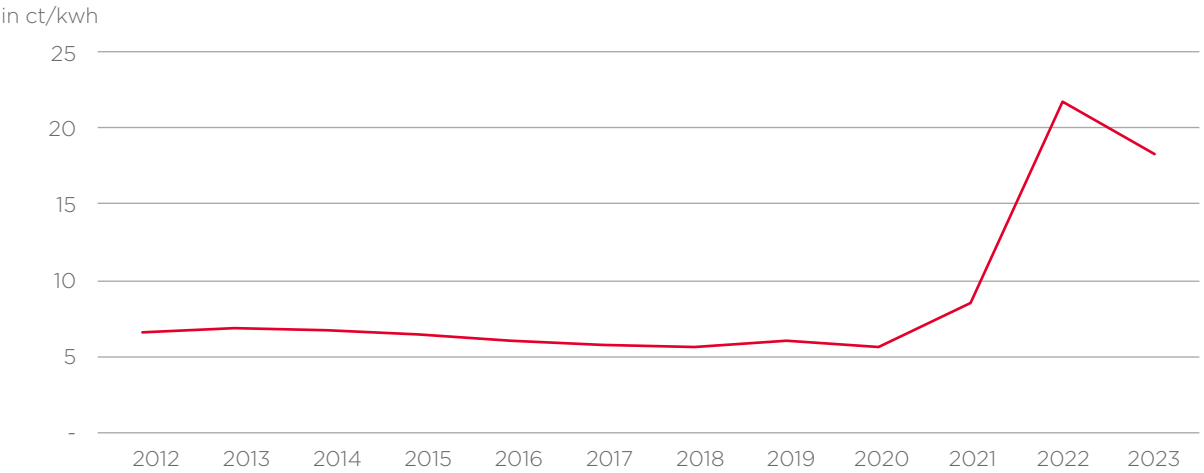
To relieve the public burden, the government has reduced the rate of value-added tax on gas from 19 to 7 percent. In addition, a gas price brake is intended to reduce heating costs: For 2023, 80 percent of the previous year’s consumption will be capped

at a maximum price of 12 cents per kilowatt hour with the remainder billed at the regular tariff.

Gas prices have stabilised somewhat in recent months. The move to suppliers other than Russia is paying off – and the construction of liquefied natural gas harbour terminals has also opened up additional procurement opportunities. Nevertheless, the price level will remain at a level significantly higher than in recent years and thus continue to be an issue for tenants, owners and investors.

Due to the strong common interest in achieving the lowest possible energy consumption, efficient construction and the renovation of existing buildings are gaining massively in importance.

Energy price growth



Source: Statistisches Bundesamt, Cushman & Wakefield, 2023

Incentives via KfW subsidies – overview

The resumption of the state-owned development bank’s, KfW, promotional programmes for the construction of energy-efficient houses and apartments is essential for the market in order to systematically promote such buildings and to continue to pursue the goal of reducing CO₂ emissions.

With the Residential Building Loan 261 programme, KfW offers loans of up to EUR 120,000 per residential unit fulfilling the “KfW Efficiency House 40” standard. Up to five percent repayment subsidy is possible, i.e. a maximum of EUR 6,000 per residential unit.

KfW also attaches great importance to refurbishment of existing buildings: if the “KfW Efficiency House 85”, or better, standard is achieved via refurbishment, EUR 120,000 of loans per residential unit is also possible and up to EUR 150,000 for an additional renewable energy class. The maximum repayment subsidy is up to EUR 37,500 per residential unit.

An additional ten percent repayment subsidy is available for renovations of

so-called Worst Performing Buildings (WPB), which are the 25 percent of worst performing buildings in Germany in terms of their energy-efficient refurbishment status. 15 percent extra repayment subsidy is also available for serial renovations with prefabricated elements – for example of façade or roof. Construction supervision is also supported.

From 1 March 2023, the new funding “Climate-friendly New Construction – Residential Buildings” (Kredit 297, 298) also began, which provides up to EUR 150,000 for new buildings and initial purchases per residential unit. Eligible for funding are buildings fulfilling the “KfW Efficiency House 40”, “Quality Seal Sustainable Building Plus” or “Quality Seal Sustainable Building Premium” standards as well as heating by other methods than oil, gas or biomass.



Credit and interest rates for KfW-Kredit 261 subsidised credit as of 24 March 2023

Fixed repayment rate loan

In the first few years, only interest accrues (grace period), then a consistent rate of amortisation.

RUNTIME	Fixed interest rate	Repayment-free start-up period	Borrowing interest per year (APR)
4–10 years	10 years	1–2 years	0.01% (0.01%)
11–20 years	10 years	1–3 years	0.87% (0.87%)
21–30 years	10 years	1–5 years	1.13% (1.13%)

Bullet loan

During the entire term, only the interest is paid. The loan is repaid at the end of the term in a lump sum.

TERM AND FIXED INTEREST RATE	Borrowing rate per annum (annual percentage rate)
4–10 years	1.23 (1.01%)

Source: KfW, 2023

RESIDENTIAL RENTAL MARKET

TIGHT HOUSING MARKETS IN THE METROPOLITAN REGIONS.

Housing shortages, rising demand and restrictions are driving up rental prices in the top-7 cities and burdening residents. Legal regulations such as caps or “brakes” are intended to counteract this.

MASSIVE RENT INCREASES IN THE TOP-7 CITIES

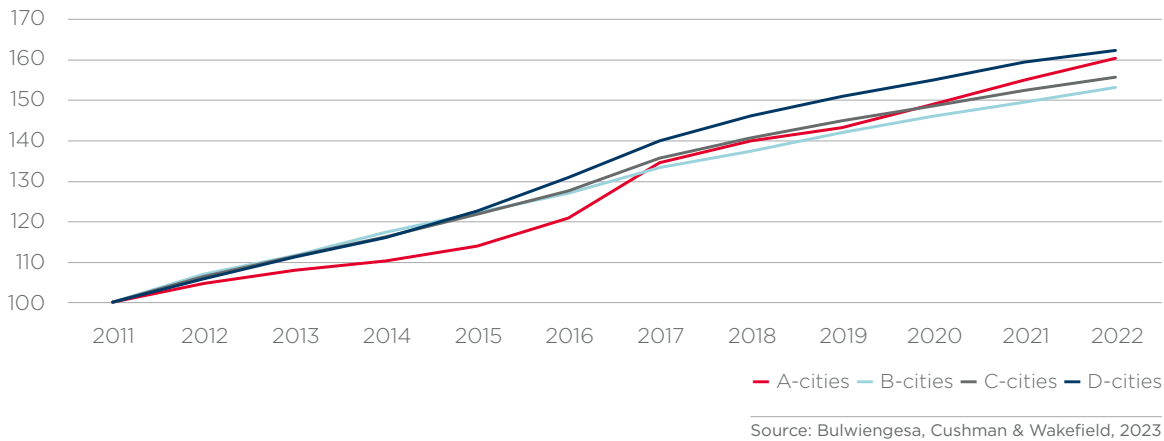
Germany's rent level by city cluster

The rent level in Germany varies regionally and is highest in the top-7 cities. Regardless of rent level or building age, averages have risen sharply – most strongly in the top-7 cities and their metropolitan areas, followed by C- and D-cities. Since 2011, rents have risen by between 49 and 69 percent.

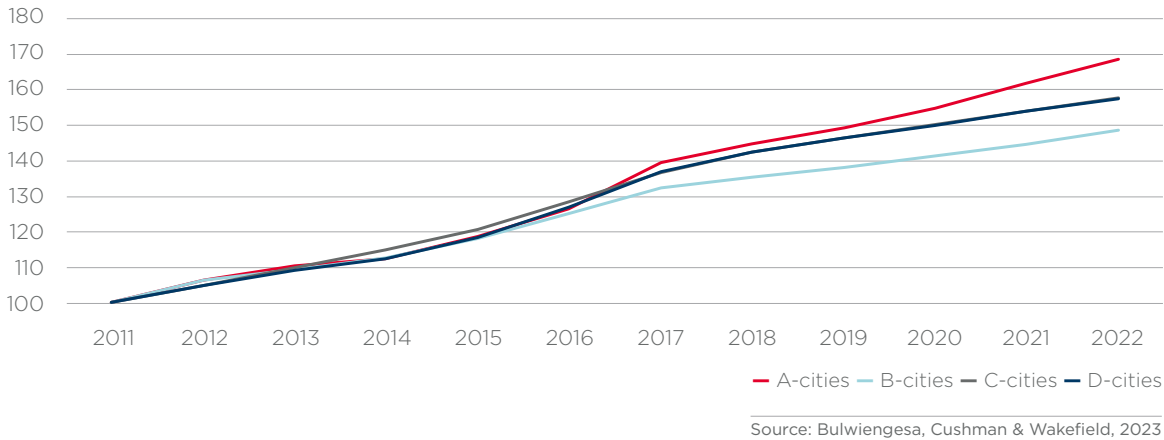
Due to a lack of supply, the demand for additional housing is becoming more urgent, especially in metropolitan regions. New construction is only possible to a limited extent in the inner city and is therefore increasingly shifting to the suburbs of the major cities. Changes in planning law are also having an impact on new construction and rental price developments in the housing market.

Development of prime rent in tier A- to D-cities

New construction

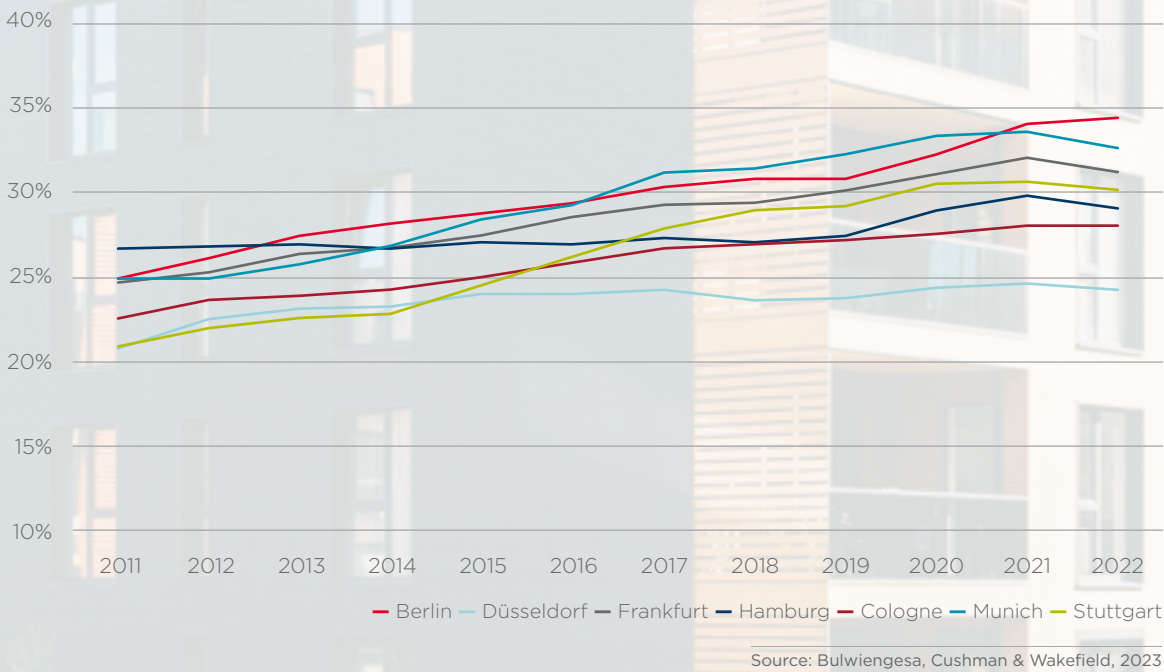


Stock



Rent price excluding heating costs as a proportion of household income

Net rent consumed between 25 and 35 percent of household net income on average in the top-7 cities in 2022 – in 2010 this figure was only 20 to 25 percent. With the exception of Düsseldorf, the rent burden in the top-7 cities is significantly higher than the national average of 27 percent in 2022.



REGULATIONS SHOULD RELIEVE BURDEN ON TENANTS

The rental market in Germany is determined by various regulations that serve to protect tenants and counteract disproportionate rent increases.

Rent price increase cap

For existing tenancies, the so-called capping limit applies, which limits rent increases to a maximum of 20 percent within three years. In areas with designated housing shortages, only a maximum of 15 percent is allowed in a 3-year period.

Rental price “brake”

The rent brake serves to impose a rent limit for re-lettings and has been continuously adjusted since its introduction in 2015. The federal states name the municipalities in which the housing market is considered tight. For re-letting, the rent may not exceed the local comparative rent by a maximum of ten percent. This is calculated according to the simple or qualified rent index for the last six years.

If the agreed rent is more than ten percent above the local comparative rent, landlords must disclose the rent of the previous tenant. This is intended to simplify the complaint process for unduly high rents

and to enable tenants to exercise their right to repayment of excess rent paid over the previous two and a half years.

Excluded from the rent brake are first lets after comprehensive modernisation, provided that the renovation costs amount to at least one-third of the costs of a comparable new building. Also excluded are leases that were agreed before the rent brake, new buildings with a first letting date after 1 October 2014 and furnished apartments.

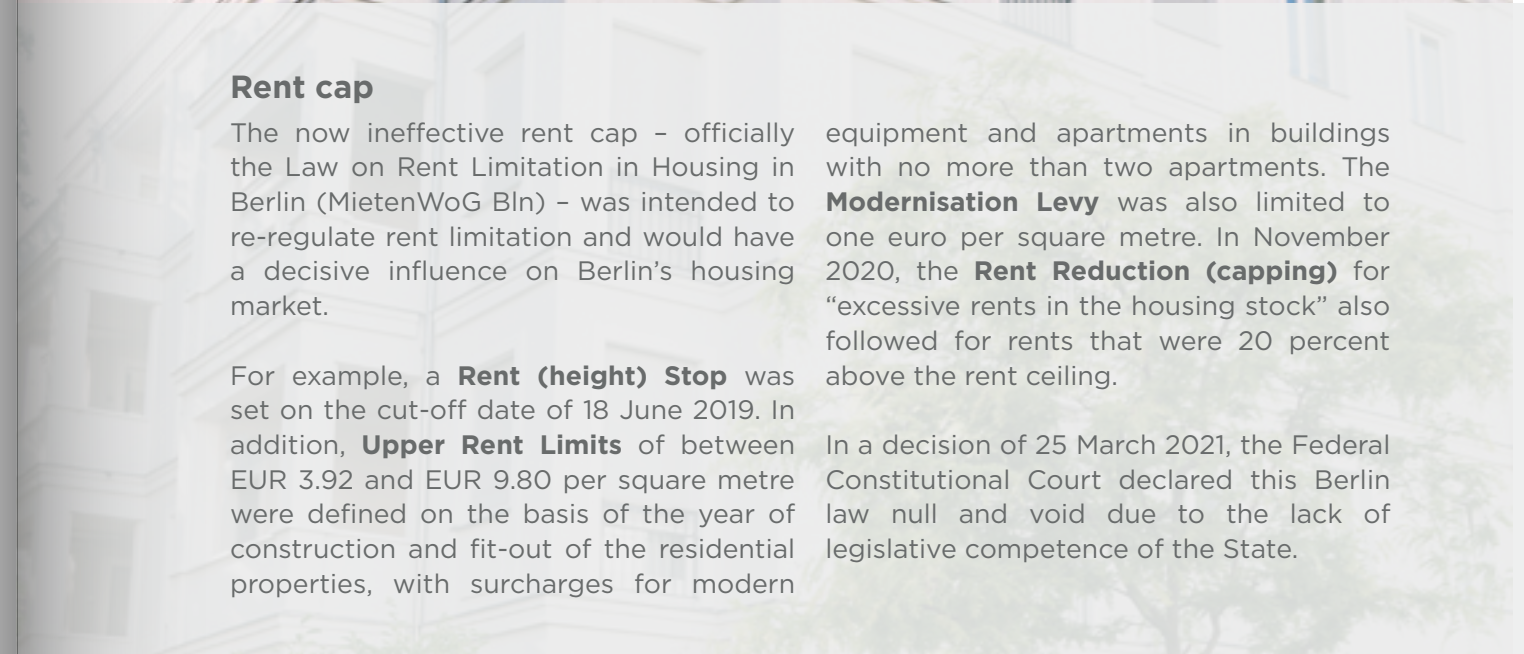
Rent cap

The now ineffective rent cap – officially the Law on Rent Limitation in Housing in Berlin (MietenWoG Bln) – was intended to re-regulate rent limitation and would have a decisive influence on Berlin’s housing market.

For example, a **Rent (height) Stop** was set on the cut-off date of 18 June 2019. In addition, **Upper Rent Limits** of between EUR 3.92 and EUR 9.80 per square metre were defined on the basis of the year of construction and fit-out of the residential properties, with surcharges for modern

equipment and apartments in buildings with no more than two apartments. The **Modernisation Levy** was also limited to one euro per square metre. In November 2020, the **Rent Reduction (capping)** for “excessive rents in the housing stock” also followed for rents that were 20 percent above the rent ceiling.

In a decision of 25 March 2021, the Federal Constitutional Court declared this Berlin law null and void due to the lack of legislative competence of the State.



RESIDENTIAL INVESTMENT MARKET

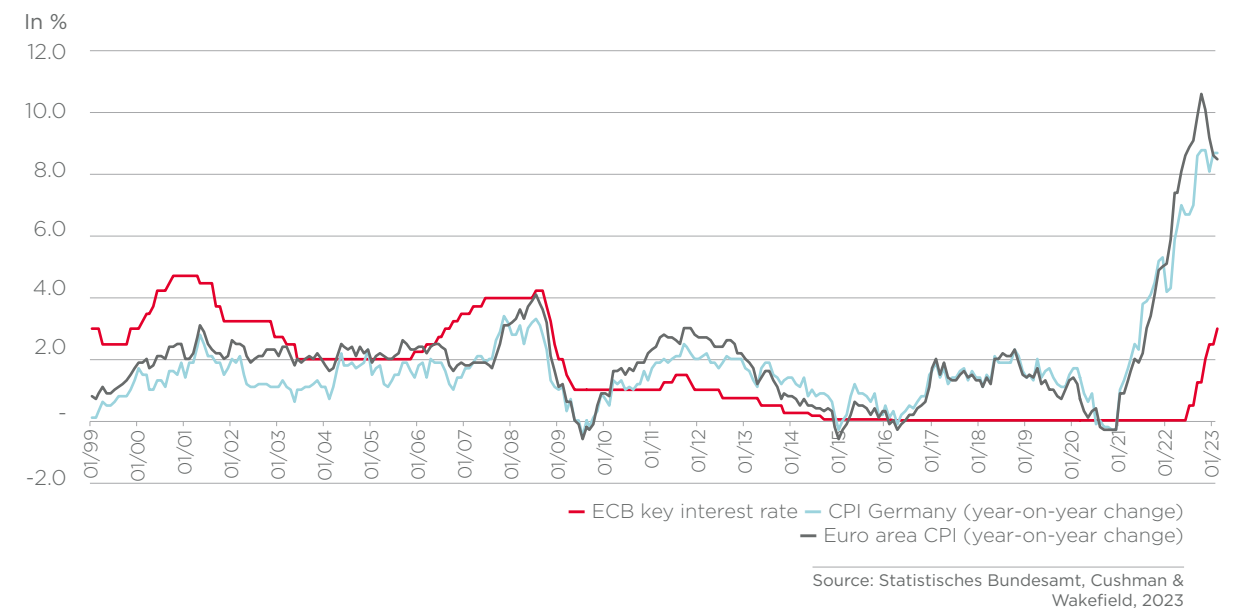
**RIISING INTEREST RATES
AND GEOPOLITICAL
DEVELOPMENTS ARE
DAMPING MARKET
ACTIVITY.**

Higher interest rates, price rises and inflation are making investors more cautious. New business volume, purchase prices, transaction volumes and the demand for development projects are declining as a result.

Consumer price index and ECB key interest rates increase

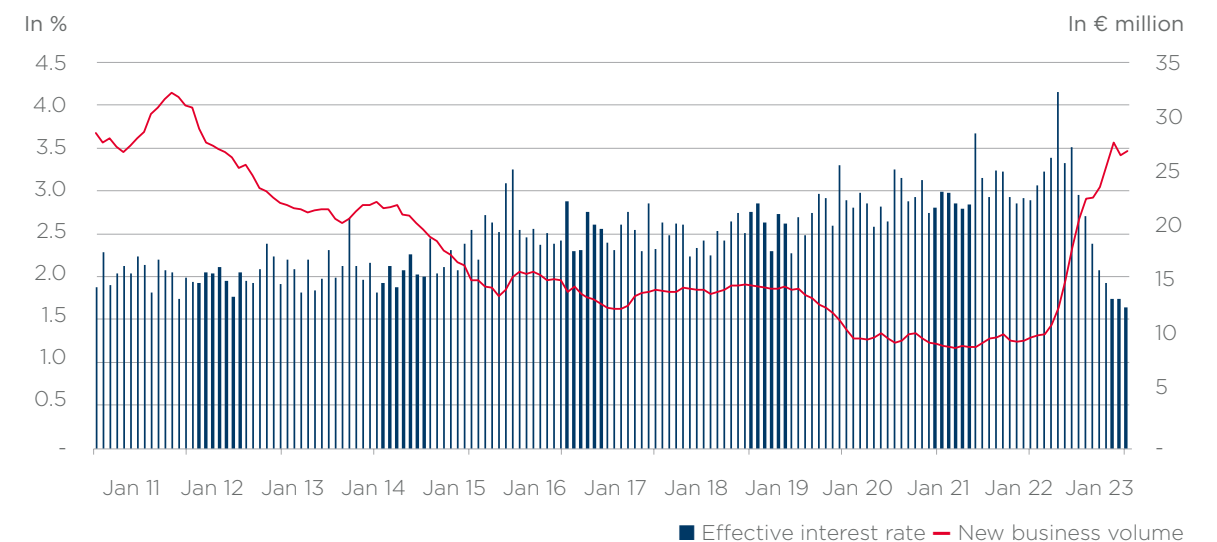
Interest rates, which are of key importance in the financing of residential real estate, were in recent years mainly in favour of the market – thanks to an ECB key interest rate of around 0.0 percent. Since mid-2022, this has changed abruptly: The ECB has departed from its long-standing zero interest rate policy and raised the key interest rate to 3.5 percent. This was in order to combat inflation, which peaked at as much as 10.0 percent in 2022, partly due to rising energy costs.

Entwicklung Verbraucherpreisindex & Verbraucherpreisindex



Effective interest rate rises, volume of new business decreases

The extremely low interest rates of recent years led to rising volumes housing loan volumes. Since the raising of the ECB's key interest rate, there have been successive falls in the volume of new business. Property developers are becoming more cautious, as is the entire investment market.



BOOM RUNS OUT OF STEAM

Purchase prices for residential real estate flatten out

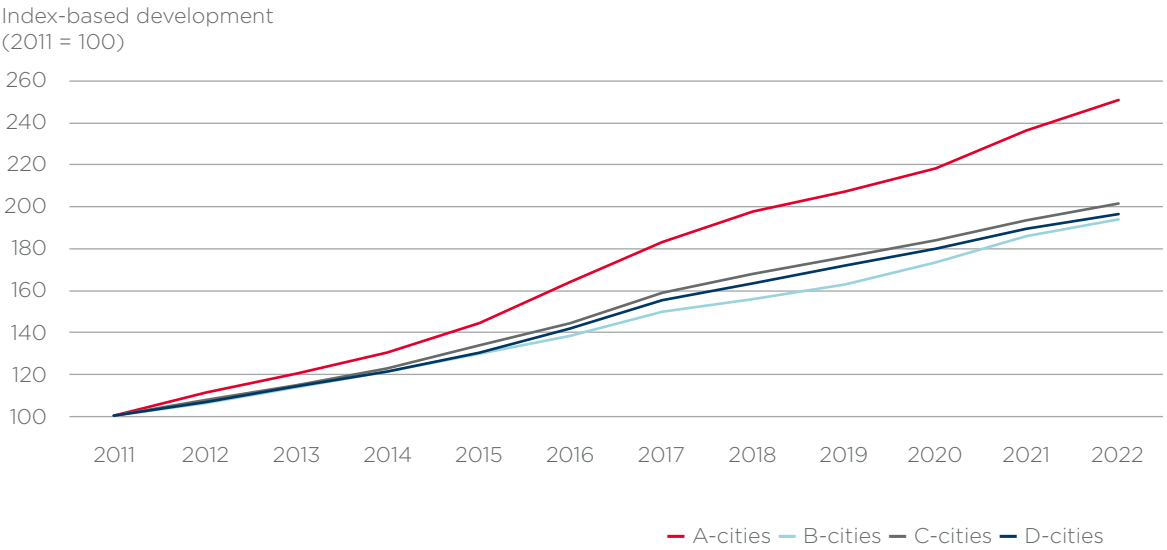
In recent years, yields on residential real estate have compressed steadily, while investment volumes have risen, breaking one record after another. Many investors regarded the crisis security and resilience provided by constant cash flows as optimum investment criteria. The initially expected slump caused by the Covid-19 pandemic also failed to materialise – but yields continued to compress demonstrating the low economic volatility of residential real estate.

Prime purchase prices per square metre in Germany's A-cities and their catchment areas rose much more strongly than in other cities – especially for new buildings. Munich, Hamburg and Berlin are the leaders in this regard, with a supply analysis started in 2012 indicating price increases of over 130 percent. In Düsseldorf and Frankfurt, prices rose by more than 115 percent. Only

in Cologne and Stuttgart did the increase remain at just under 100 percent. In terms of average floor space, apartments in Munich were the smallest at 83.0 square metres, and the largest were in Düsseldorf at 104.0 square metres.

Despite the boom of the last decade, the market slowed in 2022. Over the year as a whole, purchase prices rose only slightly: While the first half brought a further increase prices fell from July 2022, despite the low level of supply, among other things due to the increase in the ECB's key interest rate and consequently rising interest rates. Private individuals, investors and property developers became more cautious due to the high levels of uncertainty and made corresponding discounts on purchase price.

Development of average prime purchase prices for apartments in A- to D-cities



Source: Bulwiengesa, Cushman & Wakefield, 2023

3 figures about apartment purchases

in tier A-cities in 2022



AVERAGE LIVING AREA:

73 sq m



AVERAGE DURATION OF OFFERS:

8.3 weeks



AVERAGE PURCHASE PRICE FACTOR:

31-fold

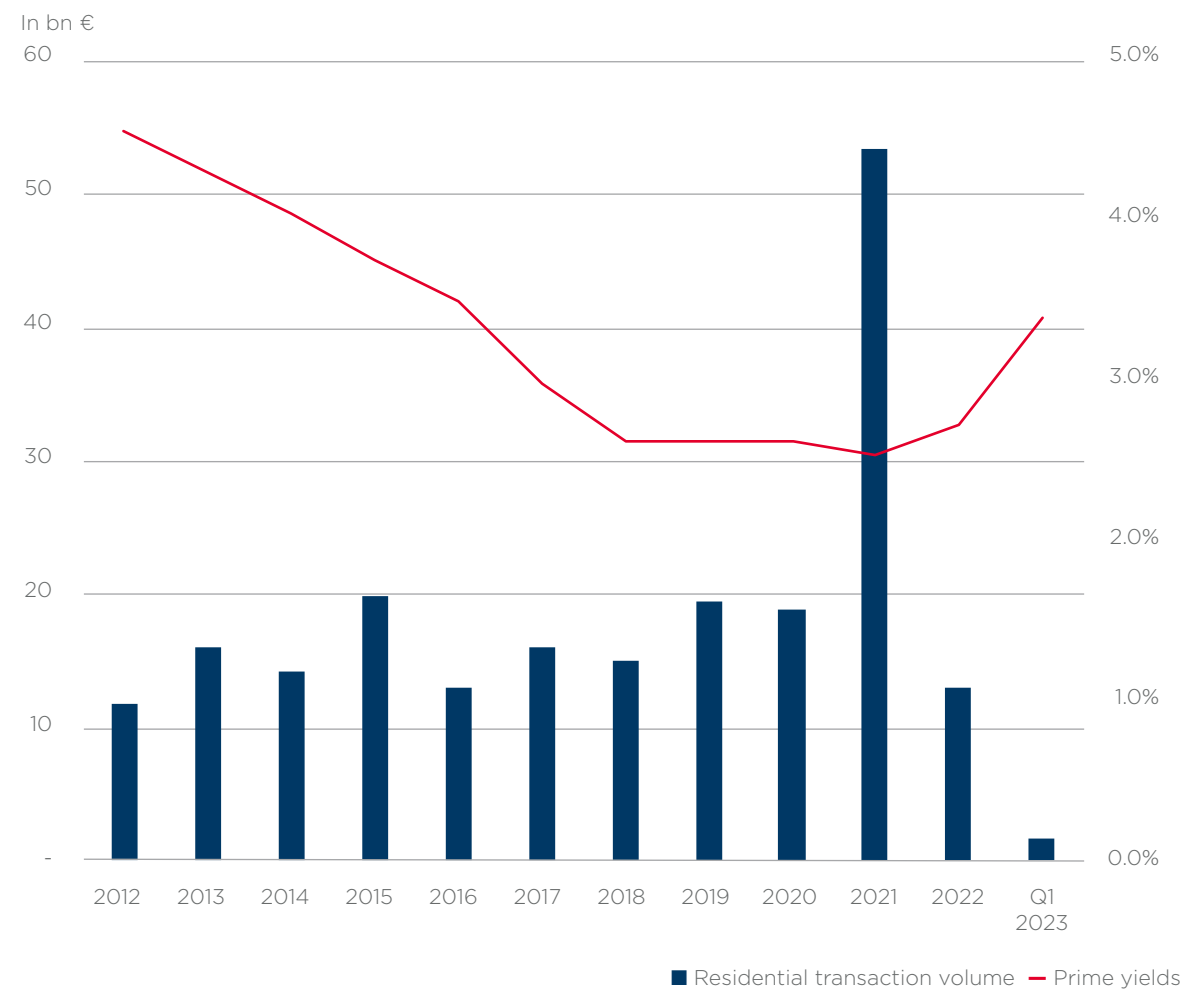
GROWING UNCERTAINTY IN THE TRANSACTION MARKET

Significantly declining transaction volume

With a transaction volume of around EUR 50 billion, 2021 was an absolute record year. The prime yield for residential real estate reached a new low of just under 2.3 percent by the end of the year. By contrast, the transaction volume in 2022 amounted to only about EUR 10 billion, with a slight increase in prime yield to around 2.75 percent. The geopolitical influences of the war in Ukraine, rising interest rates, the energy crisis and high inflation significantly

slowed the investment market due to the associated uncertainties. Many investors took a wait-and-see attitude. This is manifested in the increase in the prime yield to 3.4 per cent for the time being with a transaction volume of around 1.5 billion euros in the first quarter of 2023. Institutional investors are now expecting the market environment to stabilise over the remainder of the year.

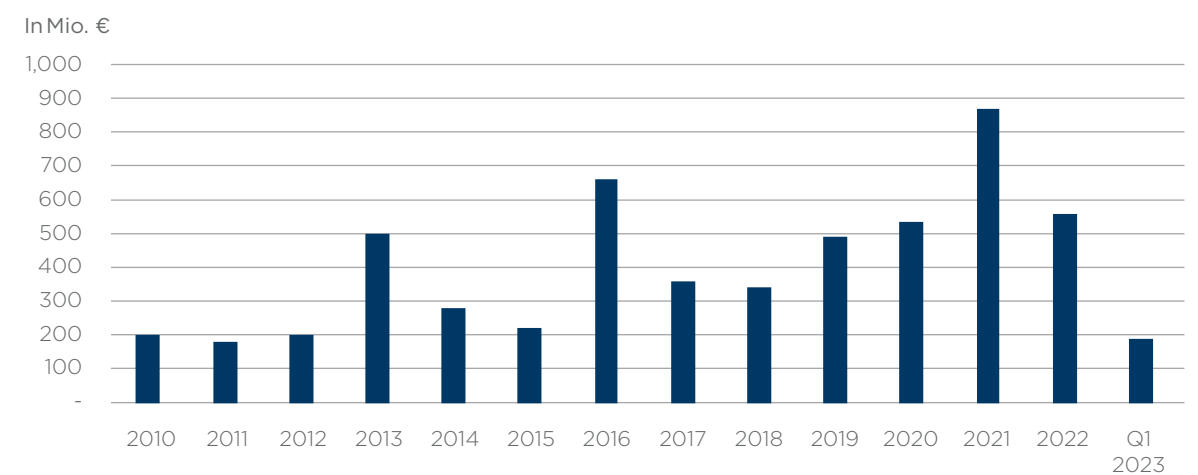
Development of residential transaction volumes and prime yields



Source: Cushman & Wakefield 2023

Demand for assisted living remains stable

According to calculations, the transaction volume for assisted living real estate in 2022 was around EUR 558 million. As an interface between standard residential property and nursing homes, this asset class is now firmly established in the German real estate market and ever more investors wish to invest in assisted living as an alternative. A trend that will continue in 2023.



Source: Cushman & Wakefield, 2023

Lower transaction activity in 2022 and Q1 2023

In 2021, there were various significant portfolio transactions in the German housing market: The takeover of Deutsche Wohnen by Vonovia was achieved with over 60 percent of votes. This merger required the sale of almost 15,000 residential units from the portfolio of Vonovia and Deutsche Wohnen to the State of Berlin. In addition, the Akelius Real Estate Group sold around 14,000 residential units – its entire portfolio

in Germany, Sweden and Denmark – to Heimstaden Bostad. The investment market in 2022, on the other hand, was much more subdued and characterised above all by smaller-scale portfolio transactions. There were no major transactions comparable with those of the previous year and the market remained similarly muted in the first quarter of 2023.

Demand for development projects slowed for the time being

For development projects, a mixed picture emerged in 2022 and early 2023: While many transactions went ahead in spring 2022, the number fell significantly from mid-year. The uncertainty caused by increased construction costs and higher interest rates is particularly evident in the residential property development segment.

Nevertheless, it is to be expected that, once the market has stabilised, investors will increasingly acquire development projects again – especially those fulfilling ESG standards. This is due to the increasing requirements for investors to invest in sustainable buildings.



SUMMARY

WHERE IS THE GERMAN RESIDENTIAL MARKET HEADING?

Until mid-2022, the past decade was characterised by steadily rising rental and purchase prices, with prime yields of around 2.3 percent for residential real estate. From the summer onwards, however, geopolitical influences progressively slowed the market: the war in Ukraine had a strong impact on the economy, the ECB successively raised the key interest rate and inflation reached record highs of around ten percent. In addition, there were high energy prices and energy supply bottlenecks, steadily rising construction costs and uncertainties about the future, all of which dampened growth. Hardly any investment transactions took place and construction activity also fell massively. The federal government's goal of creating the 400,000 new apartments required annually thus moved into the distant future.

Nevertheless, Germany's housing market is of great importance in Europe thanks to its decentralisation, resilience and low risks for domestic and foreign investors. It is to be expected that it will again prove to be a stable investment market in the future. At 51 percent, Germany has the second-lowest home ownership rate in Europe, which is why the letting market plays a prominent role. And living space is always needed – especially in the conurbations and their prosperous suburbs, the demand is rising continuously. The high demand is due to refugee flows, intensifying urbanisation and the changing housing needs of the ageing population.

The topic of sustainability and associated ESG objectives will also gain ever more importance. Many investors are affected by new requirements for Article 8 and Article 9 funds due to the tightened disclosure regulation, which creates incentives for renovation and new-build developments. Tenants are also more strongly focused on energy-efficient housing due to high energy prices and consequently increased ancillary costs. In view of the high construction costs of new-builds, the refurbishments of existing buildings will be in increasing sought after, so that residential real estate remains a profitable investment target for investors under increased ESG pressure.

Although the enormous transaction volume of the recent years fell for the first time in 2022, the German residential rental market also showed itself to be largely independent of the vagaries of the economic cycle. In the first quarter of 2023, there was initially restraint in the housing market with a transaction volume of around EUR 1.5 billion, which was low for this market. However, Cushman & Wakefield and institutional investors expect progressive stabilisation over the course of the year.



OUTLOOK

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The residential real estate market at a **click**



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