MARKET SURVEY

bulwiengesa Property Market Index 1975 - 2019

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

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

» Price Growth Continues: bulwiengesa Property Index Gains +4.7 % Across Segments in 2019

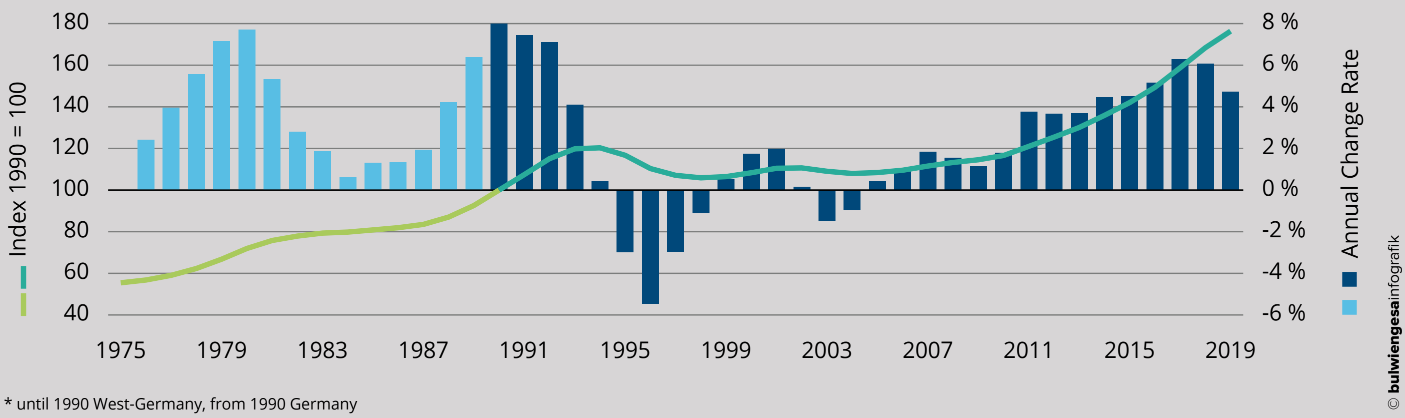
Germany's economic motor may be sputtering a bit, yet the domestic economy remains robust. For one thing, wage increases and favourable financing conditions ensure sustained private consumption and building investments. So, it is the 15th year of uninterrupted gains for the bulwiengesa Property Index, even if it fell short of the growth rates of the past three years (5.2 % to 6.3 %). The market has effectively slowed to the index growth rates of the years 2014/2015. Since the modest drop affects all of the sub-indices, the boom cycle appears to have peaked. It would be premature, though, to speak of a bona-fide economic downturn.

The key findings of the 2019 Property Index:

- The change rates of the residential property index slowed to the growth rates of the years 2014/2015.
- Office rents benefit from strong demand in the economic centres, whereas prime retail rents have come under even more pressure.
- Land prices for residential and commercial development keep skyrocketing
- The spread between the property index and the inflation rate has narrowed to the level of 2014.

bulwiengesa Property Market Index

1975 to 2019 for Germany*



* until 1990 West-Germany, from 1990 Germany

» Housing Market Experiencing Brisk Growth

The **Residential** sub-index kept surging at +5.5 % (previous year: +7.0 %). It is the eighth-fastest growth rate since Germany's reunification in 1990. But all five of the analysed variables saw their growth rates slow year on year. Overall, the 5-year average is now at 6.9 % p. a., the main price driver being properties available for sale. No matter whether one looks at sites for single-family homes (+7.3 %), terraced houses or new-build condominiums (both +6.8 %), prices are soaring. By contrast, rental growth is rather moderate, both for flats in new (+3.6 %) and in existing buildings (+2.5 %).

» Persistent Land Shortage and Construction Backlog

At the moment, the German housing market is dominated by two main causes of shortage: a scarcity in plots of land and scarce construction capacities. The Federal Statistical Office registered 319,200 planning permissions issued in 2019 (January through November, a +1.3 % increase since 2018). It also reported that the building industry's orders on hand in housing construction have gone up noticeably for 2020. Theoretically, this should cause the number of completions to rise, but construction capacities are subject to a bottleneck that has led to a growing construction backlog over the past years. There is still no sign of a rapid expansion of the housing supply through new-build construction that would be typical signs of a bubble formation. While the expansion of the housing supply is the unambiguously stated objective of government housing policy, it has yet to find its way into an actual array of measures. Legal uncertainties (e g. rent cap, tax on the increase in land value, modification of share deal parameters) raise additional questions for property developers and investors. The short-term challenge for the real estate industry and the housing policy consists in the creation of forward-looking parameters that acknowledges the needs of different target groups and in adapting the insights gained for the purposes of new-build housing construction.

» Commercial Property Index Grows by a Brisk +3.2 %

The market for commercial real estate remains indifferent. While retail rents are under pressure, commercial-zoned land and office spaces are subject to keen demand.

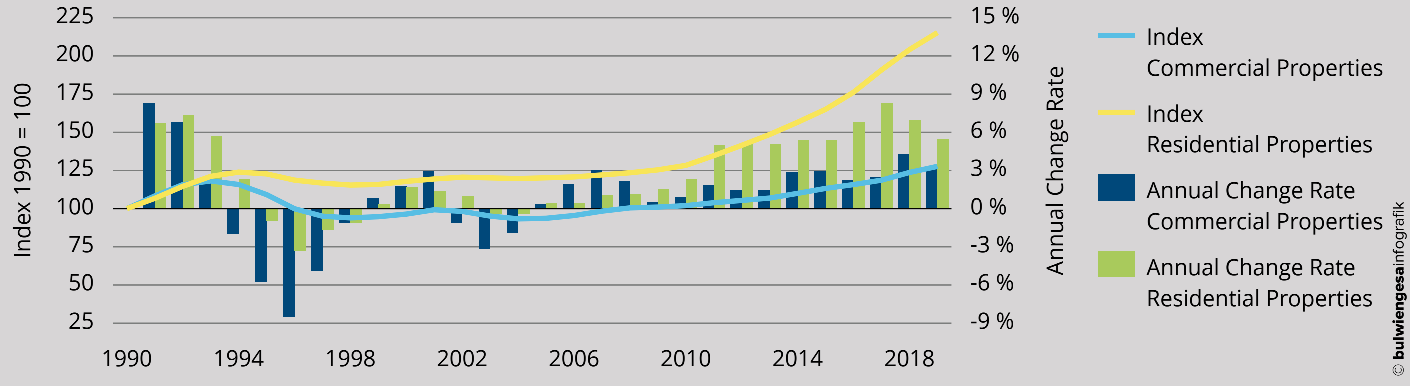
A closer look at the **retail** segment shows: The down-trend begun in the previous year has accelerated. The -0.3 % softening of average retail rents in prime high-street pitches turned into a substantial drop of -1.4 %. Rental growth in half of the analysed locations has now slipped into the negative range. The uncertainties regarding the expansion plans of many retail multiples and the growing share of sales in e-commerce have become major influencing factors. Especially in smaller cities of underperforming regions it will be up to the body politic to stabilise the footfall in central high-street locations. On the bright side, retail rents increased by +0.8 % in district locations that are dominated by food retailing.
This contrasts with the situation on the **office** market, where rents have soared since 2010, e. g. by +6.0 % in 2019. Demand for office space in A- and B-Class markets is sky-high. Even some C- and D-Class markets report lively activities. While rents in Germany's major cities are driven by scarcity (both in land and assets), rents in small towns are going up mainly because of the construction cost hikes.

The other mainstay of the robust commercial property index is the growth in **land prices** at a rate of +6.8 %. Since 2014, growth rates have consistently ranged in a bandwidth of +4.0 % to +8.7 %. Both manufacturing and logistics operations are constantly looking for potential new sites.

» Office Market: Continuous High Letting Performance

Germany's office market is moving through a boom cycle. The past four years returned the highest aggregated take-up totals since 1990 (each year >6 million sqm RAC).

bulwiengesa-Index for Commercial and Residential Properties
1990 to 2019



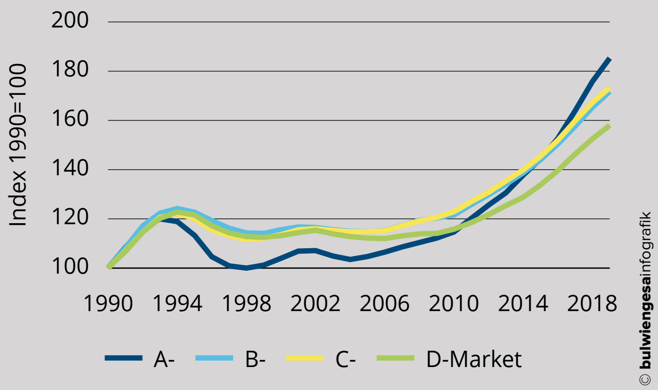
At the same time, building activities have regained their momentum, though without being able to match the peak phases of the mid-1990. Vacancies are down to 6.6 million sqm RAC, half of the 2013 total. It should be noted that office sector growth is a phenomenon limited to economic centres, i. e. A-, B- and C-Class cities. The vast majority of Class D cities looks back on an extended lull with low take-up during the 2000s, following by positive growth during the second decade of this century. Still, the take-up volumes in Class D cities during the past ten years barely exceeded the average of the years since 1990. A- and B-Class markets, whose behaviour is much more cyclic, currently top their city category average by 30 % to 60 %.

» ABCD-Class Cities in 2019: Growth Across the Board

In the overall index, Class A cities showed the highest score at +5.4 %, and have thus retained their lead in the overall index since 1990 (185.31 points). Growth in the B-, C- and D-Class cities maintained a relatively uniform and high level of +3.6 % to +3.9 %. At 158.01 points, the growth was slowest in Class D cities during the reference period.

Property Market Index by Market Type

1990 to 2019



Purchasing prices for new-build condominiums in Class A cities (+7.5 %), terraced houses (+7.9 %) and land prices for single-family detached homes (+8.8 %) achieved the fastest growth among the **housing market variables**. Yet when taking all of the city classifications into account, even the lowest change rate among the property or land price variables is very high at +4.7 % (land prices in Class C cities). The rent performance moves within narrower brackets. Interestingly, Class D cities made the largest percentage gains (+4.3 %) in new-build construction, whereas Class C cities took the lead in rents for existing flats (+3.1 %). The slowest growth rate here was noted in A- and B-Class cities (+2.4 %). On the rental housing market, the rally appears to be levelling out gradually.

A comparison of the ABCD cities illustrates the wide spectrum of **trends in commercial real estate**. While retail rents are rapidly declining in high-street pitches in cities of every class, secondary retail locations remain indifferent. The commercial index is topped by commercial-zoned land (+9.0 %) and office rents (+8.0 %) in Class A cities. They outperformed the same asset types in cities of other classes (office rent: +2.5 to +4.6 %, commercial-zoned land: +2.3 to +4.2 %) by large.

Rank of Average Change Rates

since 1975 – all Segments

Rank	City	Ø p. a.	Rank	City	Ø p. a.
1	München	4.0 %	40	Essen	2.2 %
2	Regensburg	3.5 %	41	Wuppertal	2.2 %
3	Rosenheim	3.4 %	42	Bochum	2.2 %
4	Wiesbaden	3.3 %	43	Bremen	2.1 %
5	Frankfurt (Main)	3.3 %	44	Bielefeld	2.1 %
6	Augsburg	3.2 %	45	Duisburg	2.1 %
7	Mainz	3.1 %	46	Krefeld	2.0 %
8	Stuttgart	3.1 %	47	Saarbrücken	2.0 %
9	Heidelberg	3.1 %	48	Hildesheim	1.9 %
10	Trier	3.0 %	49	Siegen	1.9 %

Note: only cities in West-Germany

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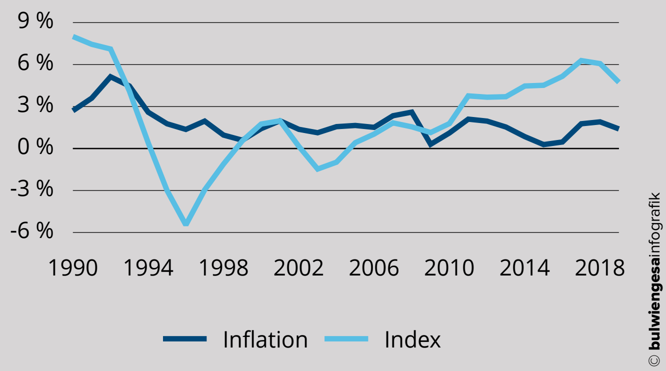
» Convergence of Inflation and Property Index

The spread between the Property Index and the inflation rate (2019: 3.3 %) has returned to the level of 2014 after having shown a greater difference (4.2 % to 4.7 %) between 2015 and 2018. While the inflation rate (1.4 %) is slightly regressive compared to the two previous years, the Property Index contracted faster. As a result, real estate remains an inflation safeguard, as it has since 2009. It is more effective in the Residential Property sub-index with a spread of +4.1 % than it is in the Commercial one (+1.8 %). The inflation rate is expected to maintain more or less the same level in 2020.

Inflation und Index

Change Rates 1990 to 2019



Rents and Prices for Residential and Commercial Property in Germany

	WEST-GERMANY incl. Berlin (West)				GERMANY				
	Value		Change (nominal		Value		Change (nominal		
	1975	1990	1975 - 1990		1990	2019	1990 - 2019		2018 - 2019
(Euros/sqm)			total	p. a.			total	p. a.	
O-o* Apartments	1,313	2,053	56.3 %	3.0 %	2,026	4,672	130.6 %	2.9 %	6.8 %
Terraced houses (Euros)	128,310	212,295	65.5 %	3.4 %	206,087	438,366	112.7 %	2.6 %	6.8 %
Rents (new)	4.12	6.81	65.3 %	3.4 %	6.79	12.21	79.8 %	2.0 %	3.6 %
Rents (existing)	2.54	5.17	103.5 %	4.9 %	4.49	9.71	116.3 %	2.7 %	2.5 %
Sites for family homes	106	235	121.5 %	5.4 %	152	361	137.2 %	3.0 %	7.3 %
Prime retail rents	33.80	68.74	103.4 %	4.8 %	55.67	77.53	39.3 %	1.1 %	-1.4 %
Suburban retail rents	10.74	18.39	71.2 %	3.7 %	16.47	14.68	-10.9 %	-0.4 %	0.8 %
City office rents	6.21	10.99	77.0 %	3.9 %	12.33	14.10	14.4 %	0.5 %	6.0 %
Commercial land	69	123	79.3 %	4.0 %	106	178	68.0 %	1.8 %	6.8 %
bulwiengesa Property Market Index			**80.3 %**	**4.0 %**			**76.4 %**	**2.0 %**	**4.7 %**
		Residential	79.1 %	4.0 %			115.3 %	2.7 %	5.5 %
		Commercial	81.9 %	4.1 %			27.7 %	0.8 %	3.2 %

* Owner-occupied Apartments

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» Expectations for the future

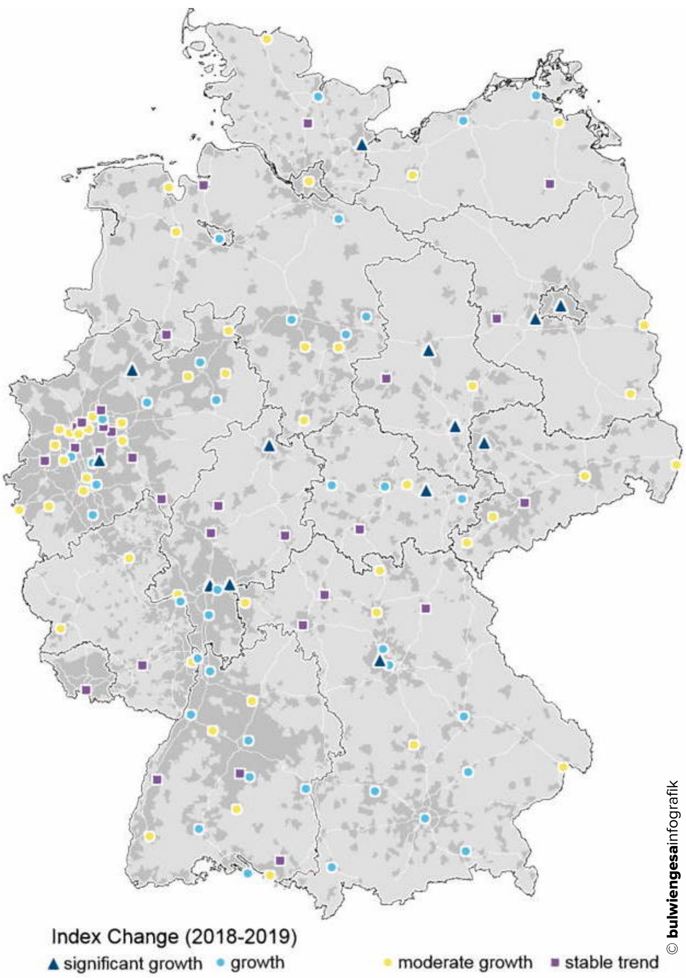
The manufacturing industry is struggling and has somewhat hampered the 2019 business cycle. But despite the modest drop in employment figures in the secondary sector caused by it, the German labour market will remain stable this year and next. Brisk income growth, tax relief and rising standard wages will probably suffice to offset potential property price hikes for home buyers.

While softening mortgage interest rates slightly increased the affordability of homeownership across markets of every type in 2019, the rear wind provided by declining borrowing rates will largely vanish in future or indeed reverse itself and become a headwind. It looks increasingly as if mortgage interest were likely to bottom out in 2020, which will leave little margin for further price growth on the real estate market.

Although one cannot rule out price spikes in some places at this time, major market adjustments continue to be unlikely due to the stable labour market, a persistently sluggish expansion of supply, most notably in larger cities, and the slim likelihood of rapid interest rate hikes going forward.

» More Details

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



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