

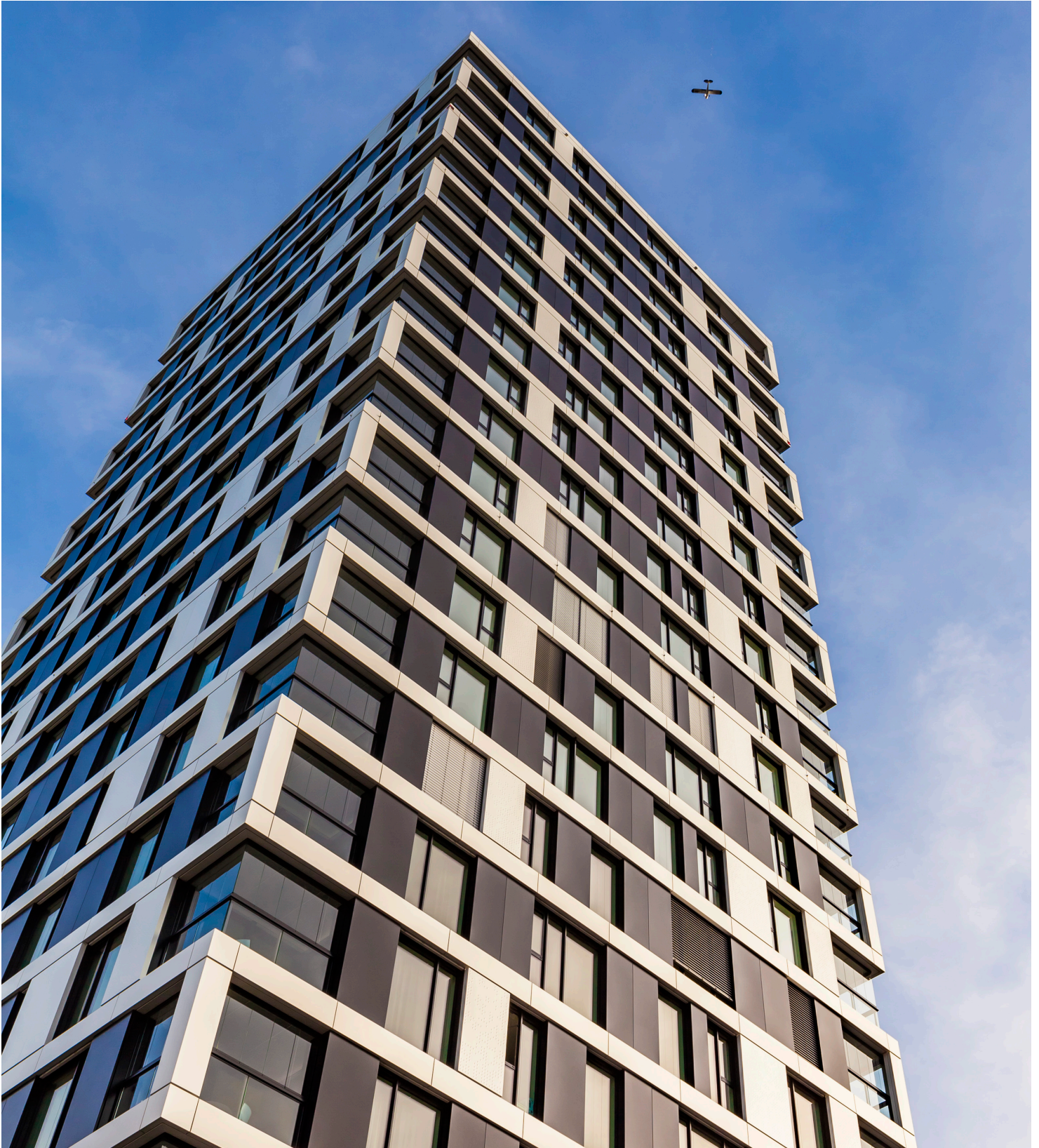
Real Estate Market Germany - November 2020

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SPOTLIGHT
Savills Research

Investment Market for Temporary Living



Adina



Declining volume • Stable investors' demand • Partly falling prices expected



Residential vs. Commercial

The temporary living market includes both residential and commercial concepts. However, the real estate investment market is clearly dominated by residential concepts. They have accounted for 82% of the transaction volume over the past five years.

The COVID-19 pandemic is hitting the hotel sector hard, while the residential property market has so far been almost unaffected. But what is the situation on the investment market for temporary living, i.e. the market between housing and accommodation? Together with Adina Apartment Hotels and Union Investment, we have analysed the current market situation and captured investors' views in a survey.

Text: Matti Schenk

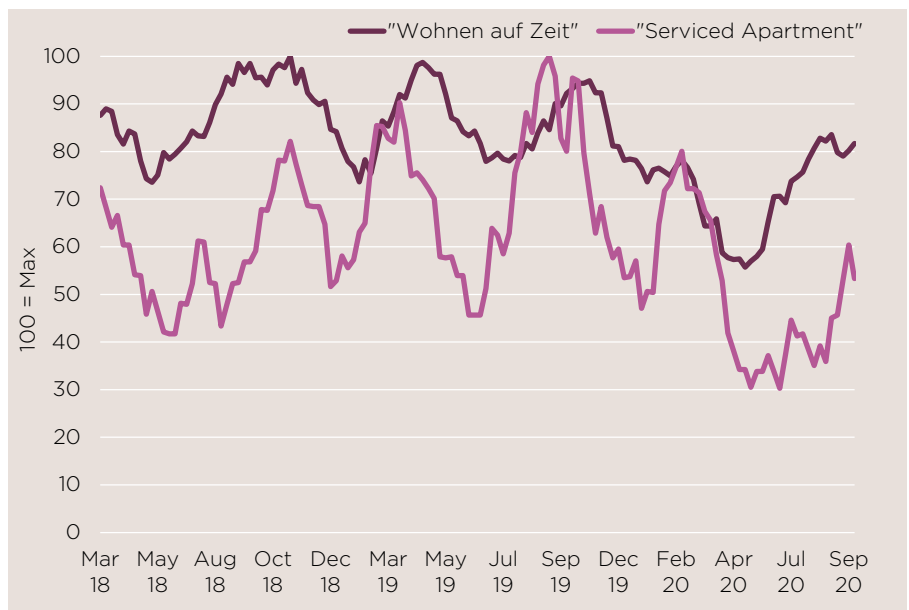
The rise

The market for temporary living has so far been characterised by remarkable growth. For example, the supply of private student residences has more than quadrupled in just ten years (see [Spotlight Student Housing Germany](#)). The market for serviced apartments has also grown steadily in recent years (see [Market Report Serviced Apartments](#)). Residential concepts such as student housing and other micro-living properties (e.g. co-living or classic micro-apartments) as well as commercial concepts such as serviced apartments and aparthotels are benefiting from a growing target group that wants furnished apartments for a comparatively short period (see also [Spotlight Temporary Living](#)).

The stumbling block

The COVID-19 pandemic, however, is a stumbling block on the segment's path to growth, at least in the short term. Many foreign first-year students will remain in their home countries until further notice, for example, which is likely to lead to a drop in demand for some student residences. Using the [example of Berlin](#), it is also clear that, at present, fewer people in total are moving to major cities. Many project staff

Graph 1 Google Trends for Temporary Living*



Source Savills based on Google Trends / * in Germany; last 3 months rolling

or expatriates are also likely to work from home for the time being and thus not need temporary accommodation. Business travel is also being hampered or eliminated entirely by travel restrictions, but also by savings and health protection measures put in place by companies. All these developments will

ensure that demand in the temporary living market is reduced, at least for the duration of the pandemic. The average occupancy rate of serviced apartments and aparthotels fell according to Apartment Service from 81% and 73% in 2019 to only 43% and 22% in May 2020. With residential concepts, the effects were

Table 1: Transaction volume in Germany (in €m)

	Jan to Sep 20	against Jan to Sep 19	past 12 months (Okt 2019 to Sep 2020)	past five years (Okt 2015 to Sep 2020)
Student Housing	158	-58%	416	2,752
Other Micro-Living	78	-44%	445	1,988
Serviced Apartments	74	-60%	127	710
Aparthotels	33	-17%	52	363
Temporary Living in Total	343	-54%	1,040	5,813

Source Savills

Transaction volumes as low as in Q2 and Q3, the two quarters which were effected by the coronavirus, were last seen in 2016.

felt much more slowly and to a lesser extent in the past due to their longer rental periods. A look at some selected search queries on Google suggests that demand has recovered somewhat after a low in spring, but remains below the level of previous years (Graph 1). The medium to long-term consequences for the various concepts will probably only become apparent over time.

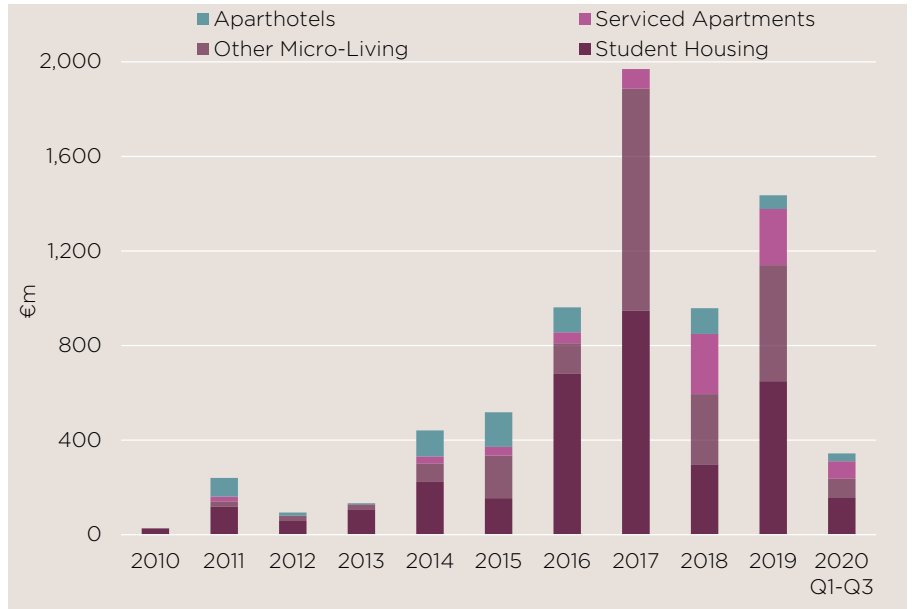
Clear indicators on the property investment market

It is also likely to take some time before possible longer-term changes in investor preferences become apparent in the investment market for temporary living. Up to now, the segment has also been increasingly attracting the attention of property investors. Since 2015, the annual transaction volume has always exceeded €500m and reached almost €2bn in 2017 (Graph 2). The bulk of this was accounted for by residential concepts, which accounted for around 82% of the volume on average over the last five years. In the first three quarters of the current year, however, only properties amounting to around €343m changed hands (Table 1). This was less than half as much as in the same period last year. In the two quarters affected by the coronavirus, Q2 and Q3, the nationwide transaction volume actually amounted to less than €100m. Such low volumes were last seen in 2016.

Investment market for commercial concepts almost at a standstill for a long time

It is noticeable that in the last two quarters, almost without exception residential properties were traded in the temporary living segment. This could be an indication that investors are currently more reluctant to invest, especially in commercial concepts. Nevertheless, the volume of transactions has fallen significantly, including in student and other micro-living properties. According to our estimates, this is probably only partly due to increased uncertainty. In any event, there does not appear to have been any reduction in

Graph 2 Transaction volume in Germany



Source Savills

investor demand based on bidding processes for student and micro-living properties in attractive locations. Rather, especially at the beginning of the pandemic, travel and contact restrictions had a negative impact on activity on the investment market. This is illustrated by looking at other market segments. The investment market for commercial property last saw two consecutive quarters with such low transaction volumes in 2016. The changed lending conditions of banks are also having a negative impact on the temporary living investment market. For example, it has become much more difficult to obtain third-party capital, especially for commercial concepts, and conditions have deteriorated from an investor's perspective. Furthermore, the supply of temporary living has been comparatively low so far this year. This could possibly be due to the fact that some potential sellers expect lower investor demand and/or willingness to pay in the wake of the pandemic and have therefore put off selling. Larger portfolio transactions in particular have not yet been completed this year (Table 2).

Investor demand remains largely stable

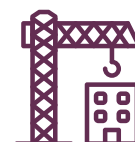
Given the various potential influencing factors, however, a mere glance at transaction volumes does not allow us to draw sufficient conclusions about how investors currently view the situation. For this reason, we have conducted a survey of institutional end investors. A total of 21 participants answered in early October, meaning before the second lockdown, our questions on market developments over the next six months. With one exception, all respondents were already active within the last five years as a buyer of temporary living properties in Germany. In view of the fact that only slightly more than 50 investors have invested more than €10m each in property in this segment in Germany since 2015, our non-representative survey might shed good light on the current mood. Overall, the survey results make it clear that there can be no question of turning away from the temporary living segment. In the case of student housing and other micro-living properties, well over half of the participants stated that they intended to continue investing the same amounts in the



54% in the top 7
Over the past five years, properties in the top 7 cities accounted for an average of 54% of the transaction volume.



191 units
Temporary living properties sold in the last five years had an average of 191 rooms or apartments.



56% of the volume
Over the past five years, purchases of project developments accounted for approx. 56% of the volume or about 44% of all properties sold.



€31.5m

A temporary living property had an average transaction volume of 31.5 million euros in the past twelve months.

Table 2: Top 10 transactions of the past twelve months*

Property / Portfolio Location(s)	(Main) type of property	Volume (€m)	Area (sq m in 000s)	Number of Apartments ↓	Buyer	Seller
i Live Frankfurt	Studen Housing / Serviced Apartments	undisclosed	39.0	1,133	Commerz Real AG	i-live Holding GmbH
Von-der-Gablentz-Straße 3, Berlin	Other Micro-Living	ca. 59	n/a	420	Berlinovo Immobilien Gesellschaft mbH	Central Berlin Wohnen GmbH
Mailänder Straße 10, Frankfurt	Other Micro-Living	undisclosed	15.0	382	PGIM; DeWAG	undisclosed
i Live Darmstadt	Other Micro-Living	undisclosed	9.0	368	Commerz Real AG	MAG; i-live Holding
Drei Geschwister, Herford	Student Housing	ca. 48	12.5	322	undisclosed	City of Herford
Campo Novo Weißensee, Berlin	Student Housing	ca. 40	6.3	261	Catella Real Estate AG	undisclosed
Urban Base, Düsseldorf	Other Micro-Living	undisclosed	5.1	184	Union Investment Real Estate GmbH	Development Partner AG
LY30, Frankfurt	Other Micro-Living	undisclosed	8.5	182	Greystar Real Estate Partners	AviaRent Capital Management S.à.r.l.
i Live Zuffenhausen	Serviced Apartments	ca. 36	n/a	172	HanseMerkur Versicherungsgruppe	i-live Holding
Cube Ruby 923, Frankfurt	Other Micro-Living	ca. 30	3.7	137	Nassauische Heimstätte	Cube Real Estate

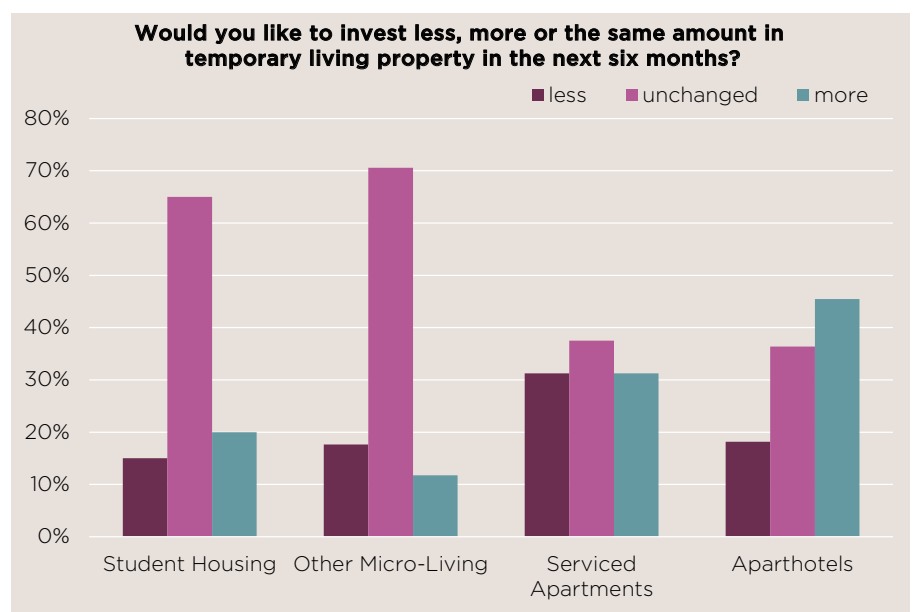
Source Savills / * by transaction volume; only published transactions are shown

next six months (Graph 3). As far as student housing is concerned, one in five respondents even wants to invest more, while 15% plan to invest less. The picture is much less clear in the case of serviced apartments. Here, 38% of the investors stated that they wanted to continue to invest the same amounts. At the same time, 31% plan to invest less or more. In the case of aparthotels, only 11 participants commented on their investment plans, which is not surprising given the small size of the market. However, of these respondents, 45% want to invest more in the next six months and only 18% plan to invest less.

Is there more investment in aparthotels in sight?

The results in the various sub-segments initially confirm that residential concepts in particular continue to enjoy a very high level of confidence among investors. The fact that a high proportion of investors in the aparthotel sector indicate that they would like to invest more in the near future could indicate that some investors, particularly in this sub-segment, believe that the time for a relatively inexpensive entry into this market is now. The mixed picture for

Graph 3 Change in investment plans by sub-segment



Source Savills // n = 21; share "no comment": Student Housing 5%, Other Micro-Living 19%, Serviced Apartments 24%, Aparthotels 48%

“According to our survey, a redirection of investments within the temporary living market can only be expected in a few cases in the medium term. A shift of investments out of the segment is currently the absolute exception.”

serviced apartments, on the other hand, suggests a higher degree of uncertainty. This could be due to the comparatively small and new operators, especially in comparison to aparthotels. Some of these operators have lower credit ratings, which is why the resilience of their concepts is probably more difficult to assess.

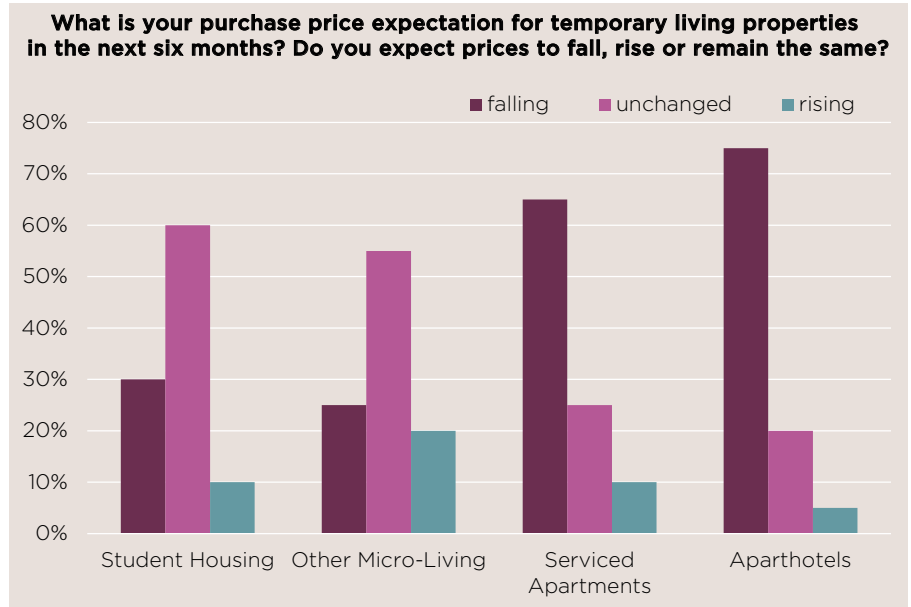
Investors remain loyal to their sub-segments

The majority of investors who have already invested in a sub-segment over the past five years plan to continue to make significant investments, or even to make higher investments over the next six months. For example, 86% of the respondents who had already invested in student residences stated that they wanted to invest the same amount or more. For other micro-living properties and aparthotels, this figure was 75%. In the case of serviced apartments, on the other hand, a third of the investors already committed stated that they intended to invest less in the coming six months. Only a minority of respondents indicate that they want to invest soon in a sub-segment in which they have not made any purchases within the last five years. In the case of serviced apartments, this was reported by a quarter of those surveyed who had not yet invested, while the proportion in the other segments fluctuated between 11% and 14%. The respondents' answers also suggest that a redirection of investment within the temporary living sub-sector is only likely to happen in a few cases. Of the total of nine respondents who would like to invest less in one or more sub-segments of temporary living, only two indicated that they would invest more into other sub-segments. Only one respondent plans to shift investments out of the temporary living segment and into other types of property, such as care homes. This also reflects the stability of investor demand.

Falling prices expected for aparthotels and serviced apartments

The question about expectations regarding the development of purchase prices in the individual sub-segments of the market confirms the different assessment of residential and commercial concepts. In the case of aparthotels especially, it is clear that investors expect prices to fall (Graph 4). However, 65% of those surveyed also expect

Graph 4 Expected purchase price changes in the sub-segments



Source Savills / n = 21; share "no comment" in each case 5%

purchase prices for serviced apartments to fall. The expectation of falling prices prevails for aparthotels and serviced apartments, both among those who have already purchased such properties in the last five years and among those respondents who have not yet made such purchases during this period. In contrast, investors in student and micro-living properties expect prices to remain stable for the most part, regardless of whether they have been active as buyers in the two sub-segments in recent years or not. For micro-living properties without a focus on students, even one in five expects prices to continue rising. This is, however, in contrast to the expectations of a quarter of the respondents, who expect prices to fall. For student residences, a slightly higher proportion of respondents expect prices to fall rather than to continue rising.

volumes, residential concepts are apparently being assessed as more stable, including in relation to purchase prices. The very low transaction activity for serviced apartments and aparthotels in recent months is probably due to the fact that sellers' and buyers' expectations around purchase prices currently differ. For the further pandemic period, however, it can be assumed that there will be a gradual alignment in this regard and thus more transactions.

Summary: Investors continue to focus on the segment but purchase price expectations have yet to be adjusted in some cases

Overall, the survey shows that investor demand remains high, but some price adjustments are expected. In all sub-segments, for those investors who want to invest less, there are also those who want to expand their investments. As was already suspected when looking at the transaction



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