

Residential Market Germany



Investors wait for the right price

In the first quarter of 2023, residential properties in Germany were traded for around €1.2bn (Graph 1). Such a low quarterly volume was last recorded at the beginning of 2011. This volume is spread over only around 20 transactions (Graph 3). By way of comparison: on average, there were three times as many sales per quarter over the past ten years.

On the supply side, the transaction volume could easily rise into the double-digit billions this year. The question is whether there will be enough demand, because the current asking prices on the residential investment market are often not feasible for investors using debt. This explains the selective action of many players, although many fund vehicles continue to look for properties for their portfolio.

Small market with advantages for equity-rich buyers

The fact that the volume climbed to more than one billion euros at all, despite the few transactions, was due to two portfolio sales in the three-digit million range. Together, these accounted for almost half of the volume. Apart from that, the market was predominantly small-scale. Sales in the mid and lower double-digit million range dominated. Smaller and medium lot sizes are currently attracting more interest than large-volume products, where the field of bidders is thinned out. Equity buyers in particular, such as private investors or family offices, can act more offensively in the current environment and have relatively many purchase options in view of the temporarily thinned-out field of bidders. They usually focus on high-quality properties that promise stable capital values and rental incomes in

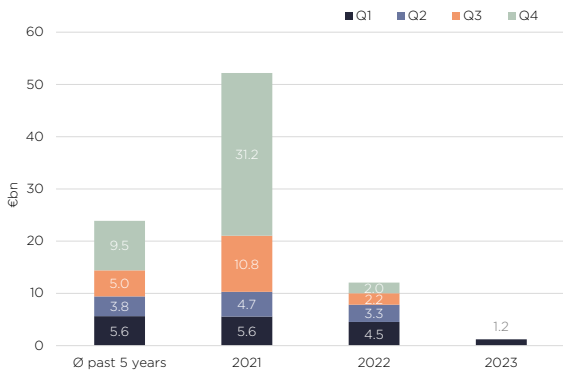
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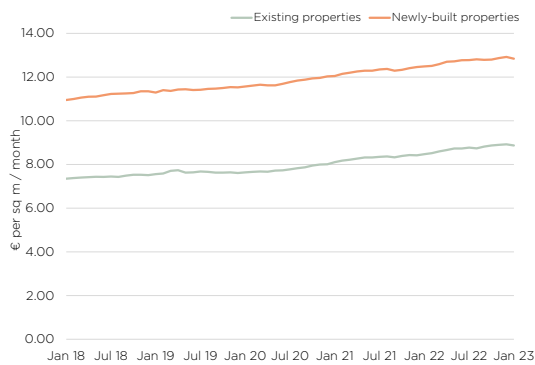
Family offices were responsible for about a quarter of the acquisition volume in the first quarter, whereas they never had more than a 2% market share in the past five years.

Graph 1: Transaction volume*



Source Savills / * only transactions with at least 50 units

Graph 2: Average asking rents*



Source VALUE Marktdaten / * nationwide average



94%

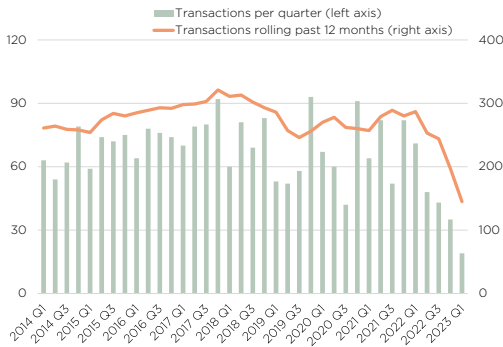
Buyers from abroad were virtually inactive in the first quarter of 2023. Investors from Germany accounted for around 94% of the acquisition volume.

Table 1: Transaction volume and number of traded units at a glance*

	TRANSACTION VOLUME (€m)		NUMBER OF TRADED UNITS	
	Q1 2023	Y-O-Y	Q1 2023	Y-O-Y
A cities	434	-71%	1,820	-61%
B cities	162	-82%	790	-85%
C cities	81	-81%	246	-90%
D cities	16	-98%	66	-99%
OTHER	500	-48%	1,970	-76%
GERMANY	1,192	-74%	4,892	-83%

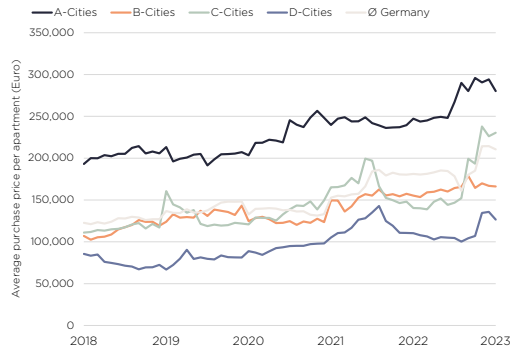
Source Savills / * only residential transactions with at least 50 units; city categories based on the Bulwiengesa classification

Graph 3: Number of transactions*



Source Savills / * only transactions with at least 50 units

Graph 4: Prices of traded units



Source Savills / Note: always past 12 months rolling; based on the Bulwiengesa classification

the long term.

Opportunistic investors are also waiting in the wings, although they are more likely to target older existing portfolios. However, the price expectations of the private equity funds only coincide with those of the owners in exceptional cases, so that we have observed relatively few purchases so far. The opportunistic players want to take advantage of the short-term price and demand dip to enter the market and are counting on capital values rising again in the long term in view of the foreseeable continuing tension in the housing markets.

Division of the market into new and existing buildings

Because the pressure to refurbish unrenovated existing properties is increasing and there is thus a cost risk, risk-averse institutional investors are likely to focus even more on completely refurbished buildings and newly built properties. In the first quarter, almost 44% of the transaction volume was accounted for by the purchase of project developments and thus significantly more than the average of the past five years (24%). The focus on newly built properties is likely to remain high for the rest of the year. Overall, we expect an even stronger division of the market between new and existing buildings. New buildings will remain the product for institutional investors. Because supply will remain scarce against the backdrop of declining construction activity, prices here are likely to stabilise soon and remain high in the long term. Older stock, on the other hand, will increasingly become a product for specialised housing companies. However, potential buyers of such portfolios expect noticeable price reductions, which many owners have not yet accepted.

Tension in the rental housing markets will continue for a long time to come

For investors looking for continuous and almost default-proof rents, German residential real estate remains the first choice. Recent statistics show a

noticeable decline in building permits and still many cancellations of housing projects. As a result, the number of completed apartments is likely to remain low in the coming years. In most markets, owners of residential properties therefore do not have to fear structural vacancies and can expect steady cash flows. Compared to many commercial types of uses, residential properties thus promise more stability, so that long-term investors in particular are likely to continue to select them as part of their portfolios.

Outlook 2023

The further development of the residential investment market will largely depend on the speed of the price adjustment process and the actions of politicians. Since we are generally observing brisk demand among institutional investors for newly built properties and expect prices to stabilise soon, transactions should be facilitated. This will also have a positive effect on the transaction volume. However, because institutional investors are increasingly refraining from buying existing stock, the listed property companies have switched to the sell side and hardly any owners are responding to the bids of the private equity funds so far, the transaction volume could remain below average for some time.

In the value-add segment, the decisive factor will be whether the owners are prepared to make greater price reductions. In order for more money to flow back into the older stock and especially into its refurbishment, politicians would also have to provide more planning security for refurbishments and their profitability.

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