MARKET IN MINUTES

Savills Research

# Residential Market Germany

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## No trend reversal yet

In the first three quarters of 2023, residential property in Germany was traded for almost €5.0bn (Graph 1). This was 51% less than in the same period of the previous year. In Q3, we registered a transaction volume of €1.0bn and just 15 transactions - the lowest number of transactions in a quarter since we began monitoring the market in 2009. In the year to date, around 26,100 apartments have changed hands (down 52% year-on-year).

### Restraint in existing portfolios

In view of the worsening housing shortage, there
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can be no doubt that the fundamentals on the German housing market are very attractive for landlords. Nevertheless, it can be seen that existing residential properties have lost some of its appeal for many institutional investors. The reason for this is probably the strong rent regulation with ongoing discussions about further tightening, as well as the significant decline in fluctuation. In times of high inflation and growing modernization requirements, investors in existing portfolios run the risk that their costs will grow faster than their rental income. A large proportion of institutional investors are therefore focusing on new buildings. For institutional investors to turn more strongly to the existing portfolio again, they would probably need more predictability with regard to future rent regulation and the costs they will face. Yields would probably also need to rise further to offer an attractive premium over government bonds.

### FOCUS ON SELECTED FIGURES

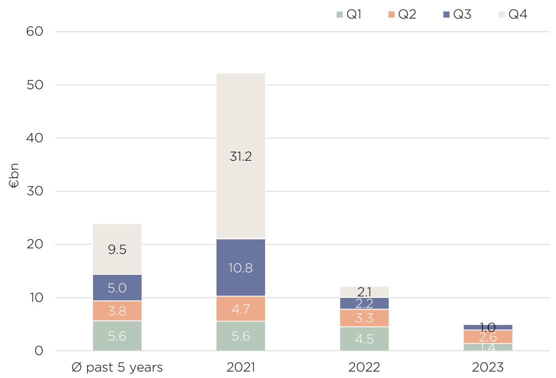
**€2.4bn**

So far this year, listed residential companies have sold portfolios for around €2.4bn. Last year, they disposed of portfolios worth €1.6bn. The main buyers of the portfolios were private equity investors.

**€85m**

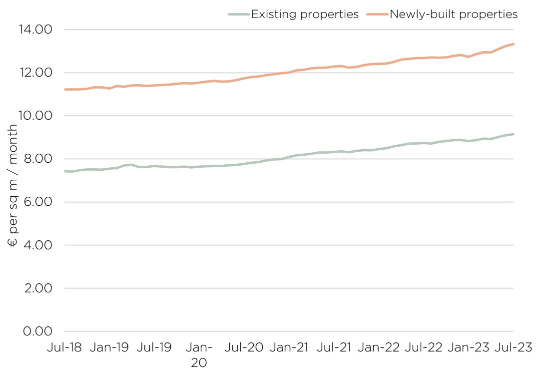
Despite very good fundamentals, student and micro-living properties were traded for only €85m so far this year. One reason for this is low supply and consequently a lack of price evidence.

Graph 1: Transaction volume*




**Source** Savills / * only transactions with at least 50 units

Graph 2: Average asking rents*



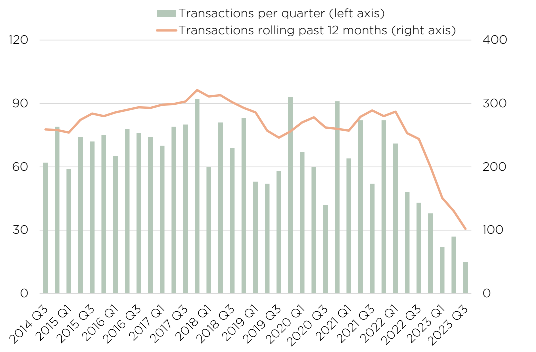

**Source** VALUE Marktdaten / * nationwide average

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

| | TRANSACTION VOLUME (€m) | | NUMBER OF TRADED UNITS | |
|---|---|---|---|---|
| | Q1 - Q3 2023 | Y-O-Y CHANGE | Q1 - Q3 2023 | Y-O-Y CHANGE |
| A cities | 2,016 | -52% | 6,343 | -55% |
| B cities | 250 | -84% | 1,400 | -84% |
| C cities | 324 | -61% | 1,577 | -63% |
| D cities | 416 | -65% | 2,713 | -75% |
| OTHER | 1,948 | -14% | 14,067 | -12% |
| GERMANY | 4,954 | -51% | 26,100 | -52% |

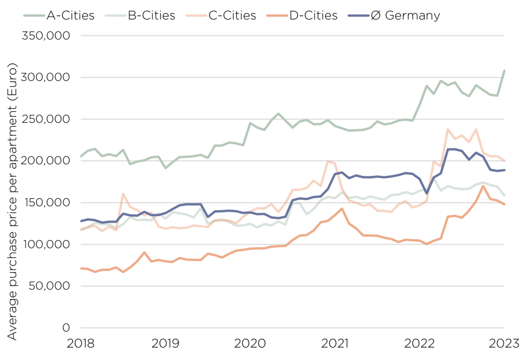
**Source** Savills / * only residential transactions with at least 50 units; city categories based on the Bulwiengesa classification

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

## Volume share of forward transactions declining

However, there are also challenges in the new construction segment at present. Due to increased insolvency risks of project companies, many investors have become more cautious in purchasing project developments or are pricing in corresponding risk premiums. In the year to date, around 20% of the volume was attributable to forward transactions, significantly less than in the previous year (36%). Overall, we are currently observing transactions in the core-plus and value-add risk classes in particular, as pricing tends to be more advanced here than for new-build properties.

## Private investors increase their purchasing volume

The challenging situation for both existing properties and project developments is reflected in a strong reluctance on the part of many investors. Of the twenty largest buyers in the last five years, only three were active as purchasers this year. Almost all investor types have seen a significant decline in the acquisition volume. While listed residential companies have switched entirely to the vendor side, fund managers and open-ended fund vehicles have reduced their purchasing volume by 64% or €3.5bn in absolute terms compared with the same period last year. Insurance companies and pension funds reduced their purchases by 87% and invested less than €60m. By contrast, private investors and family offices purchased for around €412m in the first three quarters, increasing their acquisition volume by 130% year-on-year. The volume of purchases by the public sector and its housing companies remained constant. While a favourable time window for long-term oriented buyers to enter the market is opening up, the timing could also be favourable for owners willing to sell. A timely sale could have advantages over a wait-and-see approach, as there are currently still a relatively large number of equity buyers on the market who stabilise prices, especially for smaller and medium-sized properties. Once this equity is invested, however, prices could fall again.

## Prime yield rises, but remains below the 4% mark for the time being

The purchases of some equity buyers have so far ensured that the prime bet initial yield for multifamily properties (only residential properties with 50 units or more) has remained below the 4% mark. In the 3rd quarter, it rose by an average of 20 basis points in the top 6 cities to 3.6%. There are still a few transactions with gross multiples of 26 times, but these transactions are generally fully made with equity or the investors still have access to a favorable credit line. However, many investors are now only submitting bids of less than 22 times for core properties. There is much to suggest that the price correction is not yet complete.

## Outlook: More activity in the final quarter, but no turnaround yet

Because many of the sales processes started in the spring are coming to a conclusion, more transactions are likely to take place in the 4th quarter. However, in view of the reluctance of many investors, it is not yet possible to speak of a real turnaround. The transaction volume at the end of the year is likely to be well below €10bn – this would be the lowest transaction volume since 2011. Due to the favorable fundamentals and significantly rising rents (Graph 2), the residential investment market is likely to pick up again sooner or later. However, the decisive factor will be whether the general conditions for existing properties appear attractive enough again to attract institutional capital on a large scale. In principle, residential property promises long-term value retention and continues to be of interest to appropriately focused investors. A look at past decades even shows that the capital values of residential properties are inflation-protected in the long term, so that residential real estate can act as an anchor of stability in multi-asset portfolios. The current market phase offers the opportunity for a relatively favourable market entry.

**Download the charts and raw data here**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