Germany Residential - January 2024

MARKET IN MINUTES
Savills Research

Residential Market Germany

savills

Prime yields stabilise

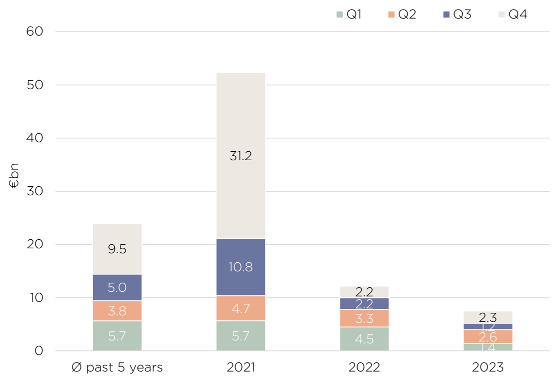
In 2023, residential property in Germany was traded for around €7.5bn (transactions of at least 50 units). This was around 38% less than in the previous year (Graph 1) and also the lowest transaction volume since 2011. Of the €7.5bn, around €2.0bn – just over a quarter of the volume – was attributable to minority interests acquired by Apollo in two Vonovia portfolios. The transaction volume of traditional property transactions was correspondingly lower.

The total number of transactions roughly halved compared to the previous year and remained relatively stable at around 20 to 30 transactions per month over the course of the year (Graph 3).

Rents up, vacancies down - no turnaround in sight on the occupier market

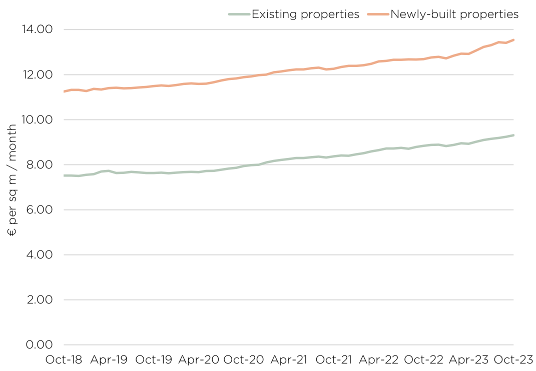
The situation on the residential occupier market is likely to deteriorate further from a tenant perspective. There were strong rent increases last year (Graph 2) and vacancy rates are likely to have fallen again in many places. In view of the declining number of building permits and record high cancellation rates for residential construction projects on the one hand and a further increase in the number of households on the other, there are currently no signs of a trend reversal. The housing shortage will increase in the coming years and most landlords can expect rents to continue to

Graph 1: Transaction volume*



Source Savills / * only transactions with at least 50 units

Graph 2: Average asking rents*



Source VALUE Marktdaten / * nationwide average

FOCUS ON SELECTED FIGURES

28%

Last year, 28% of single asset transactions were residential properties consisting entirely or partly of subsidised residential units. The volume of these transactions totalled €474m.

-91%

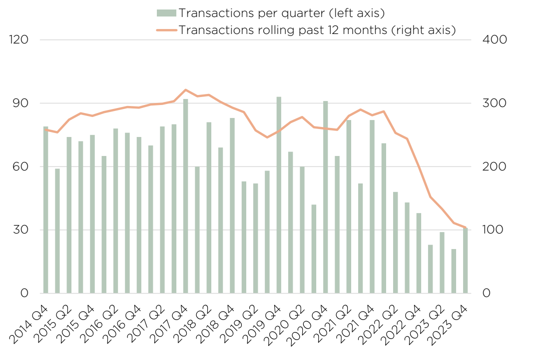
The transaction volume of student and micro-living properties totalled €97m in 2023. This is a decrease of 91% compared to the previous year and also the lowest volume since 2012.

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

	TRANSACTION VOLUME (€m)		NUMBER OF TRADED UNITS	
	Q1 - Q4 2023	Y-O-Y CHANGE	Q1 - Q4 2023	Y-O-Y CHANGE
A CITIES	2,672	-47%	8,808	-48%
B CITIES	797	-65%	6,284	-55%
C CITIES	1,002	+2%	7,676	+51%
D CITIES	528	-56%	3,507	-69%
OTHER	2,479	-7%	18,235	-3%
GERMANY	7,479	-38%	44,510	-33%

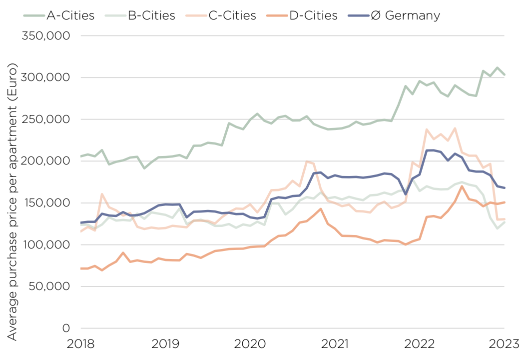
Source Savills / * only residential transactions with at least 50 units; city categories based on the Bulwiengesa classification

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

rise. As the difference between existing and new contract rents continues to widen, tenants are often faced with ever-increasing cost jumps when moving, meaning that the fluctuation rate on the housing market is likely to fall further and housing in Germany will be distributed even more inefficiently.

Prices for new builds are likely to bottom out soon

While the fundamental conditions on the residential property market are very attractive from an investor's perspective, prices have fallen sharply over the past year. This is the sharpest price correction in recent history. In our view, this decline is purely interest rate induced. The interest rate effect is counteracted by the fact that the supply shortage will intensify further in the short term. This could mean that the current downturn in the housing market is shorter than previous periods of falling prices.

There are already signs that prices for new builds are slowly bottoming out. The prime yield moved sideways in the fourth quarter and stood at 3.6%. Before the turnaround in interest rates, newly-built residential properties in sought-after residential locations were achieving sales multipliers of 35 times the annual net rent and more in some cases. In the meantime, the multipliers for such properties are typically between 23 and 25 times. This means that a price level has been reached at which various investor groups are prepared to buy. We assume that prices will initially stabilise at this level. The foreseeable high construction costs also suggest that capital values will rise again in the future.

Only private equity funds and family offices increase their acquisition volume

In terms of transaction volume, fund managers and property funds were the most active group of buyers last year with a share of 43%. Private equity funds were in second place with 32%, mainly due to Apollo's participations in two portfolios, although the source of capital in these cases had no opportunistic yield requirements. Public sector housing companies came in third with a volume share of 9%, followed by family offices and private investors with a combined 6%.

Private equity funds, family offices and private investors were the only investor groups to notably increase their purchase volume compared to the previous year and also compared to the five-year average. At around €2.2bn, private equity funds invested around twice as much as in 2022, while family offices and private investors spent 81% or €175m more than in the previous year. Public-sector housing companies increased their acquisition volume by 12% or €60m compared to the previous year. In contrast, all other investor groups invested significantly less than in the previous year.

Outlook for 2024: no imminent increase in transaction activity

In view of the fall in prices coupled with very favourable fundamentals and the prospect of rents continuing to rise, some investors currently see an attractive entry window. However, the willingness of most landlords to sell is low and they are also benefiting from slowly but steadily rising rental income. The expectation that capital values will soon rise again is also causing many owners to refrain from selling at present. On the financing side, we also do not expect any significant increase in pressure to sell, especially as lending rates have recently fallen again. Project developers and listed companies are likely to be the most willing to sell in the current year. Overall, it can be assumed that market activity will remain fairly subdued, at least in the first half of the year.

Download the charts and raw data here

SAVILLS TEAM

Please contact us for further information

KARSTEN NEMECEK
Managing Director
Corp. Finance-Valuation
+49 30 726 165 138
knemecek@savills.de

MARCO HÖGL
Director
Head of Residential Capital Markets
+49 69 273 000 28
mhoegl@savills.de

MATTI SCHENK
Associate Director
Research
+49 30 726 165 128
mschenk@savills.de