MARKET IN MINUTES
Savills Research

Residential Market Germany

Prices stabilize, rents continue to rise

In the first quarter of 2024, residential properties in Germany were traded for around €755m (transactions of at least 50 units). This was around 60% less than the quarterly average of the previous year (Graph 1) and even 86% less than the quarterly average of the last five years. With fewer than twenty transactions in the first quarter, transaction activity fell to its lowest level since we began recording it in 2009 (Graph 3).

The residential investment market is therefore still bottoming out. However, there are signs of a slight upturn from the summer onwards. This is mainly due to sales processes that are in preparation or still ongoing, not least from listed housing companies. This should ensure more supply over the course of the year. In terms of demand, the MIPIM confirmed that residential property is very high on the purchase list of many institutional investors and Germany, Europe's largest residential market, is often the focus. So far, this demand has met with very little supply overall because many landlords are under no pressure to sell in view of increased rental income and predominantly conservative financing. As a result, the overall willingness to sell is low. In addition, in view of the increasing shortage on the residential letting market, many owners expect capital values to recover and are refraining from selling for the time being. On the investor side, we are observing that capital sources in particular

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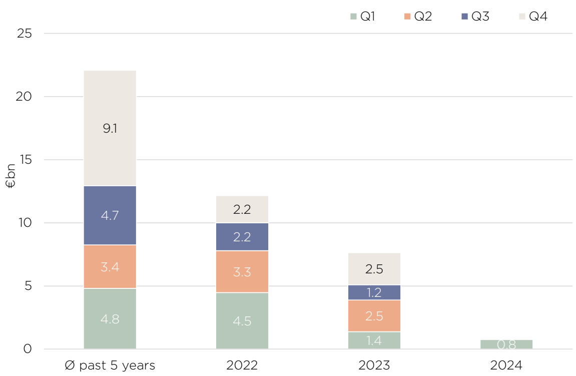
29%

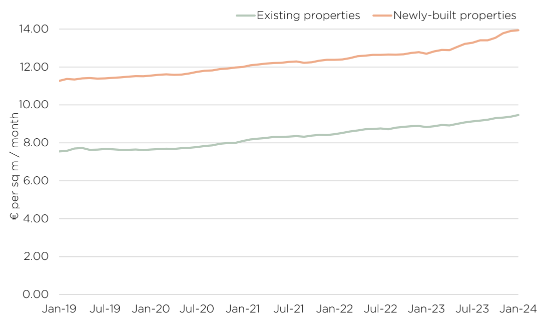
In the last twelve months, 29% of all single asset transactions involved properties that included at least some subsidised apartments. By comparison, this was only the case in around 16% of single asset transactions in 2021 and 2022. Since the beginning of the interest rate turnaround, the favourable financing conditions under the subsidy programs have gained in importance from the investors' point of view and the demand for subsidised residential buildings is correspondingly high.

Graph 1: Transaction volume*



Source Savills / * only transactions with at least 50 units

Graph 2: Average asking rents*



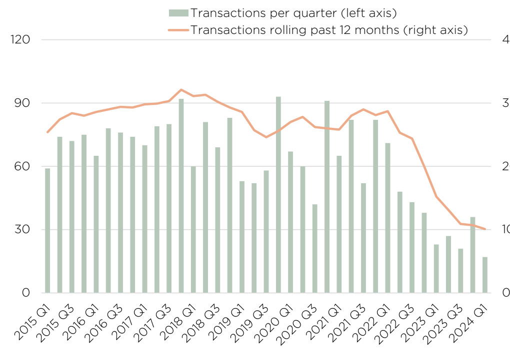
Source VALUE Marktdaten / * nationwide average

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

	TRANSACTION VOLUME (€m)		NUMBER OF TRADED UNITS	
	Q1 2024	y-o-y change	Q1 2024	y-o-y change
A CITIES	408	-11%	1,505	-17%
B CITIES	63	-61%	167	-79%
C CITIES	16	-85%	295	-8%
D CITIES	38	-35%	593	+140%
OTHER	231	-62%	1,406	-38%
GERMANY	755	-45%	3,966	-27%

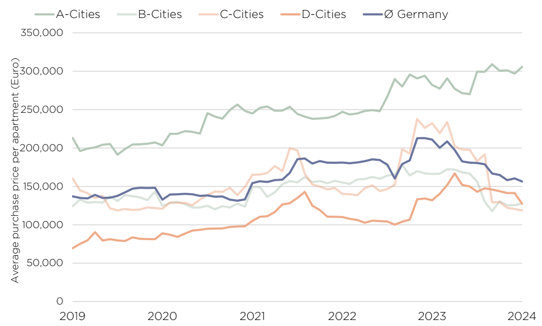
Source Savills / * only residential transactions with at least 50 units; city categories based on the Bulwiengesa classification

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

are currently still uncertain as to whether prices have already bottomed out.

No easing in sight on the letting market

Prices continue to receive a tailwind from the very good fundamental data on the letting market from the perspective of landlords and investors. Although the influx of refugees from Ukraine has slowed, net immigration remained high last year. The birth deficit is likely to be more than offset by immigration in the coming years and demand for housing will continue to rise. However, the vacancy rate in the thirty largest university cities, for example, is already only 1.1% on average. There is therefore a considerable backlog and additional demand for new housing construction in many places. As completion figures are heading towards only 150,000 new residential units per year nationwide, there is currently no sign of an easing on the letting market on the horizon. The consequence is likely to be a further decline in vacancy rates and rising market rents (Graph 2).

Yields for core properties stabilise

The fact that falling rents on the residential market can be practically ruled out for years to come and that rising rental income can be expected instead makes German residential property interesting for both core and value-add investors. Since the start of the interest rate turnaround, there has been significantly more capital available for value-add strategies and numerous private equity investors are exploring the German market. However, the number of large-volume transactions in this risk class has so far been low. This is mainly due to the fact that the purchase price expectations of bidders are still too far removed from the demands of most owners. It remains to be seen whether this group of investors will buy on a larger scale this year. So far, it has mainly been smaller value-add packages that have been put together or individual residential complexes that have been sold. Buyers are often regional players who are familiar with the market. It is currently the core segment in which many successful transaction processes can be observed. As a rule, these are properties in good locations that are no more than twenty years old and are placed on the market at the end of their planned holding period. Bidding processes for such products are becoming more intensive again, with both family offices and institutional investors acting as interested parties. The purchase price multipliers for such properties have been hovering around 22.5 to 25 times for several months now. In view of rising rents, the low point in capital values for such properties is probably already behind us. The prime net initial yield for multi-family properties was 3.6% at the end of the first quarter of 2024, remaining stable for the second quarter in a row.

Willingness to enter into forward transactions has increased

On average, forward transactions accounted for 31% of the transaction volume over the past two years, with a recent upward trend. The largest transaction by far in the first quarter, the acquisition of the Greenpark in Berlin by Greystar Real Estate, was also a property under construction. This is in line with our observation that, despite numerous bad news reports on insolvent project developers, investors are once again more willing to conclude forward deals. However, the properties must already be under construction and investors are very selective when choosing projects and their developers.
Even against the backdrop of ESG targets, many institutional investors continue to have a strong focus on new construction. In view of the slump in new construction activity, however, corresponding products are likely to become scarcer, meaning that bidding competition for new-build properties for sale is likely to become fiercer.

Download the charts and raw data here

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