MARKET IN MINUTES
Savills Research

Residential Market Germany

Price correction complete in the top segment

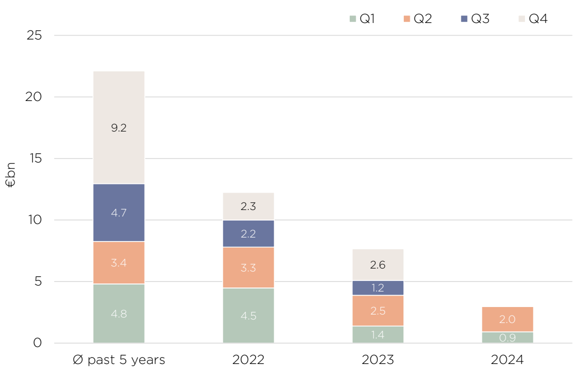
In the first half of 2024, residential property (transactions of at least 50 units) traded for just under €3bn in Germany (Graph 1). This makes it the weakest half-year in terms of transaction volume since 2011. However, we believe that the market has bottomed out and are already seeing an upturn in momentum. This can be seen above all in the recent increase in the number of completed transactions (Graph 3) and the number of ongoing sales processes has also risen in recent months. Nevertheless, we believe it is still too early to declare a trend reversal. The transaction volume in the first six months of the current year was supported not least by the public sector, which accounted for more than a third of the purchase volume and was therefore the largest buyer group.

The largest purchase was the acquisition of a Vonovia sub-portfolio by the Berlin-based housing company Howoge. It was also by far the largest transaction this year. Given the limited financial scope of many local authorities, it is unlikely that the public sector will continue to be so present as a buyer of residential portfolios.

Core prices have bottomed out

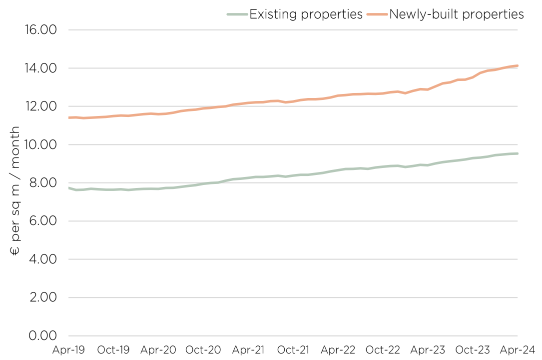
The fact that the transaction volume fell once again is largely due to the lower prices realised per traded residential unit (Graph 4). On average, just under €152,000 was realised per unit in the last twelve months. This is almost a quarter less than a year earlier. Compared to the 1st quarter, the average price fell by just 2%. Although the

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

29%

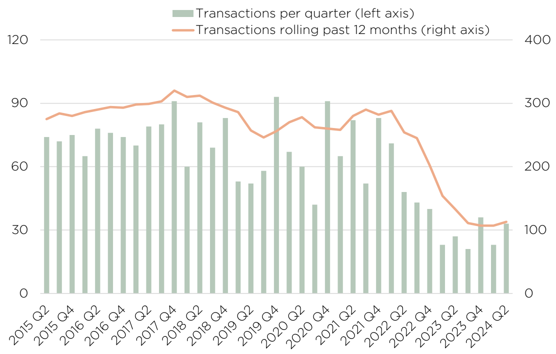
Forward transactions accounted for around 29% of the transaction volume in the first half of 2024. This exceeded the average of the last five years (23%). Despite the challenges in residential construction and various insolvencies, the focus on new construction among institutional investors is clearly continuing. This is likely to be primarily due to investors' ESG requirements and the strategy of focussing on the less regulated market segment with significantly more widespread index-linked or graduated rental agreements.

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

	TRANSACTION VOLUME (€m)		NUMBER OF TRADED UNITS	
	Q1 - Q2 2024	y-o-y change	Q1 - Q2 2024	y-o-y change
A CITIES	1,861	28%	7,934	51%
B CITIES	296	6%	1,455	-13%
C CITIES	57	-81%	432	-71%
D CITIES	119	-68%	1,545	-26%
OTHER	638	-57%	6,062	-32%
GERMANY	2,971	-24%	17,428	-10%

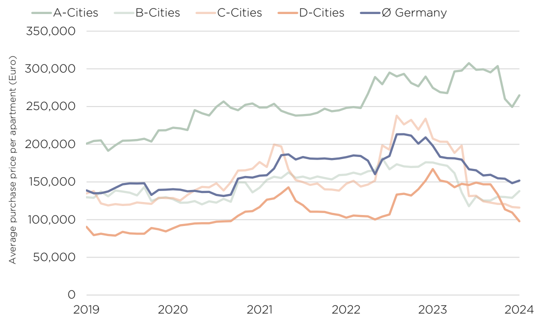
Source Savills / * only residential transactions with at least 50 units; city categories based on the Bulwiengesa classification

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

decline in prices has slowed, it remains to be seen whether the bottom has already been reached. This is definitely the case in the prime segment, as there are once again numerous potential buyers for well-located properties of new-build quality that are not subject to the rent cap. In several bidding processes concluded for this type of product in recent months, a similarly high price was achieved in each case. The prime yield of 3.6% has now remained unchanged for a year. However, in order to appeal to a broad potential investor base, the volume of a transaction must not be too high. The 'sweet spot' for most investors is between twenty and thirty million euros.

Price correction continues in the regulated part of the market

While the readjustment of prices to the new interest rate environment appears to have been completed in the core segment, this is not yet the case in other parts of the market. This is most likely to be the case for properties with clear potential for rent increases that can be realised through tenant turnover or rent increases on current contracts. There are also numerous potential buyers for properties where a manage-to-green strategy can be implemented, whose price expectations also match those of the sellers. In general, there is high demand from value-add and opportunistic investors. However, these investors have such high yield requirements that they basically only find suitable offers from owners under pressure to sell – and there are very few of these. To make matters worse, many value-add scenarios are no longer viable due to the sharp rise in construction costs and the fact that the rent freeze is likely to be extended until at least 2028. An exit is also difficult to calculate because it is still unclear which investor group will be considered. However, the rise in construction costs is not only a problem for value-add investors, but also for property owners. According to our observations, their maintenance costs have risen sharply in recent years and these higher costs will not always be offset by rising rents due to regulation and increasingly low tenant fluctuation. This will make residential leasing less profitable, especially for smaller portfolio holders who do not benefit from economies of scale. This could prompt them to dispose of properties or entire portfolios, which could cause prices to move again.

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