

# Residential Market Germany

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## Polarised residential investment market gains momentum

In the first three quarters of 2024, residential property in Germany was traded for around €4.8bn (transactions of at least 50 units). This was 5% less than in the same period of the previous year (Graph 1). While the transaction volume was roughly on a par with the previous year, the number of transactions increased by 42% (Graph 3). Even if it is not yet reflected in the transaction volume, we are seeing more demand on the residential investment market again. Many investors are assuming that prices have bottomed out and that residential property will increase in value again in the long term as rents continue to rise. In addition to risk-averse buyers, property developers have also recently become more active again. We anticipate a further increase in activity on the investment market in the coming months.

### Supply shortage and rising rents drive capital values

On the occupier market, the general conditions

for landlords remain favourable. Asking rents have risen somewhat more slowly since the start of the year, but at a high level (Graph 2). In addition, the rent index rents in some cities have been adjusted sharply upwards. In view of the high demand for housing and the continuing decline in the number of approvals for multi-family buildings (Graph 4), there is currently no sign of the rental momentum coming to a standstill. The increasing supply shortage and rising rents will also lead to rising capital values. At the same time, the ever-increasing difference between existing and new contract rents is likely to result in very low fluctuation and households postponing plans to move. Due to a lack of suitable options on the rental market, more households are likely to switch to home ownership. This could lead to a greater switch to owner-occupied apartments in residential construction and even fewer newly-built rental units than previously expected. In addition, subdivision and privatisation strategies could, where legally possible, experience a renaissance as investment strategies and already

### FOCUS ON SELECTED FIGURES

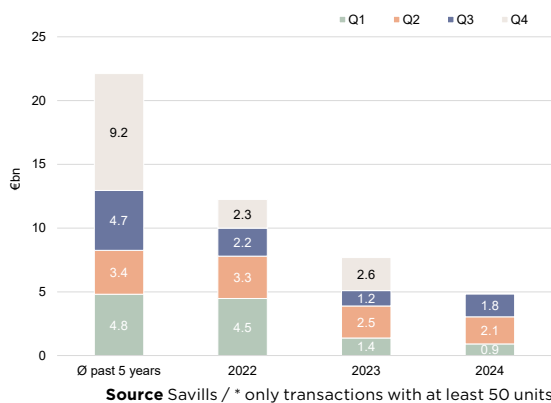


3.6%

The prime yield remained stable in the 3rd quarter and accordingly stood at 3.6%. In individual cases, wealthy private investors and family offices have purchased at even lower initial yields, although in our view this does not yet reflect the current prices for core products.

However, given the prospect of fewer new-build products coming on stream and the recent interest rate cuts, it is not unlikely that we will soon be able to report a slight compression in prime yields again. Prime capital values are already on the upswing in view of rising rents

Graph 1: Transaction volume\*



Graph 2: Average asking rents\*

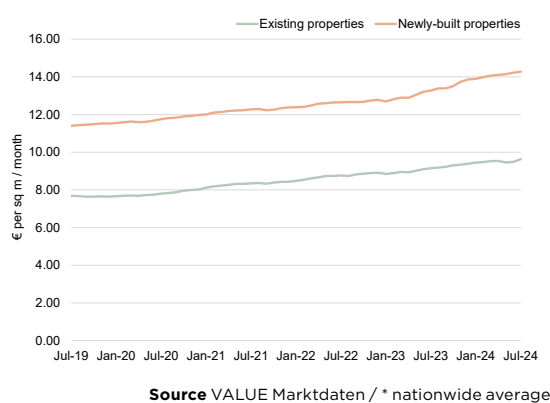
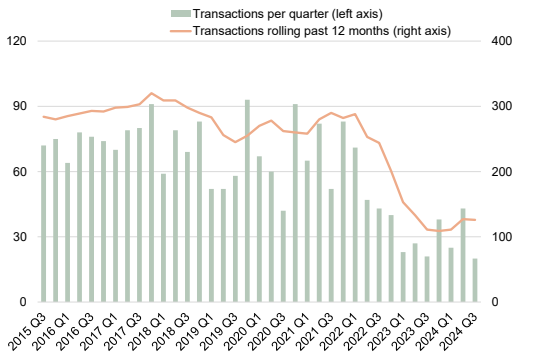


Table 1: Transaction volume and number of traded units at a glance\*

	TRANSACTION VOLUME (€m)		NUMBER OF TRADED UNITS	
	Q1 - Q3 2024	y-o-y change	Q1 - Q3 2024	y-o-y change
A CITIES	2,448	24%	10,606	63%
B CITIES	375	34%	2,267	34%
C CITIES	132	-64%	1,144	-40%
D CITIES	114	-74%	1,545	-48%
OTHER	1,759	-14%	19,463	27%
GERMANY	4,827	-5%	35,025	23%

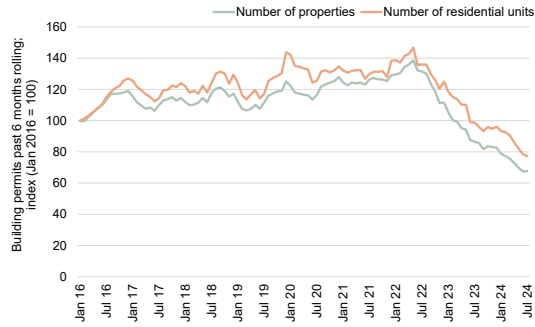
Source Savills / \* only residential transactions with at least 50 units; city categories based on the Bulwiengesa classification

Graph 3: Number of transactions\*



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

Graph 4: Building permits for multi-family properties in Germany (new buildings only)



Source Federal Statistical Office

subdivided apartment buildings are likely to be in greater demand.

**Polarisation between new build and value-add**

In the regulated part of the residential market, the actual potential for rent increases is lower than the market figures suggest due to low fluctuation and the capping of existing rents. As the costs of maintenance and management are rising, the profitability of these residential portfolios is falling, which is why they are being avoided by institutional investors in particular. As a result, the institutional residential investment market is becoming increasingly polarised between new builds and young existing buildings on the one hand and standing stock with value-add potential on the other. The more risk-averse institutional investors, but also family offices, continue to focus heavily on the new-build segment. At the same time, we are observing a significant increase in value-add capital on the market, which is focussing on the purchase of older properties and their subsequent refurbishment and resale. Although the market for existing properties without explicit value-add approaches is also picking up, it is more fragmented and characterised by local and sometimes semi-professional market players. They are taking advantage of the fall in entry prices and, in view of their often very long investment horizon, are focusing on long-term stable cash flows and rising capital values.

In the first three quarters, around a quarter of the transaction volume was attributable to the purchase of project developments. A further 18% of the volume was attributable to the purchase of existing buildings built from 2014 onwards, which are excluded from the rent cap. The new-build segment therefore accounted for 43 % of the transaction volume. By comparison, the average for

the last five years was 24%. In contrast, at least 15 % of the transaction volume so far this year has been attributable to the purchase of older properties with the aim of subsequent energy-efficient refurbishment.

**Private equity investors have hardly been involved so far**

The fact that volumes on the residential investment market have so far remained below average, although the market has been picking up for some time, is primarily due to the reluctance of many investors to invest in larger existing portfolios. After the residential listed companies switched to the seller side, the focus was initially on private equity funds as potential buyers. However, they expected very high price declines, which did not materialise on the market to this extent, meaning that they have hardly come into play as buyers in traditional property transactions to date. Instead, the public sector was the most active buyer group in the year to date, with a total purchase volume of more than €1.4bn. Investors specialising in renovations also bought larger portfolios. However, the most important buyers of large portfolios for many years, listed companies, appear to have stabilised and could soon be back on the buying side, which would also contribute to higher transaction volumes. Although the return of large capital flows is still pending, the residential investment market stands out from the overall market in that institutional buyers are already showing increasing activity again. Insurance companies and pension schemes acquired residential property for almost half a billion euros. Family offices and private investors acquired the same amount. In view of the recent noticeable upturn in the residential investment market, we expect a higher transaction volume in the 4th quarter. Overall, the transaction volume at the end of the year should be roughly on a par with the previous year (€7.7bn).

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