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REAL ESTATE MARKET GERMANY 2026

From the valuation cycle to the earnings cycle: new prospects for real estate

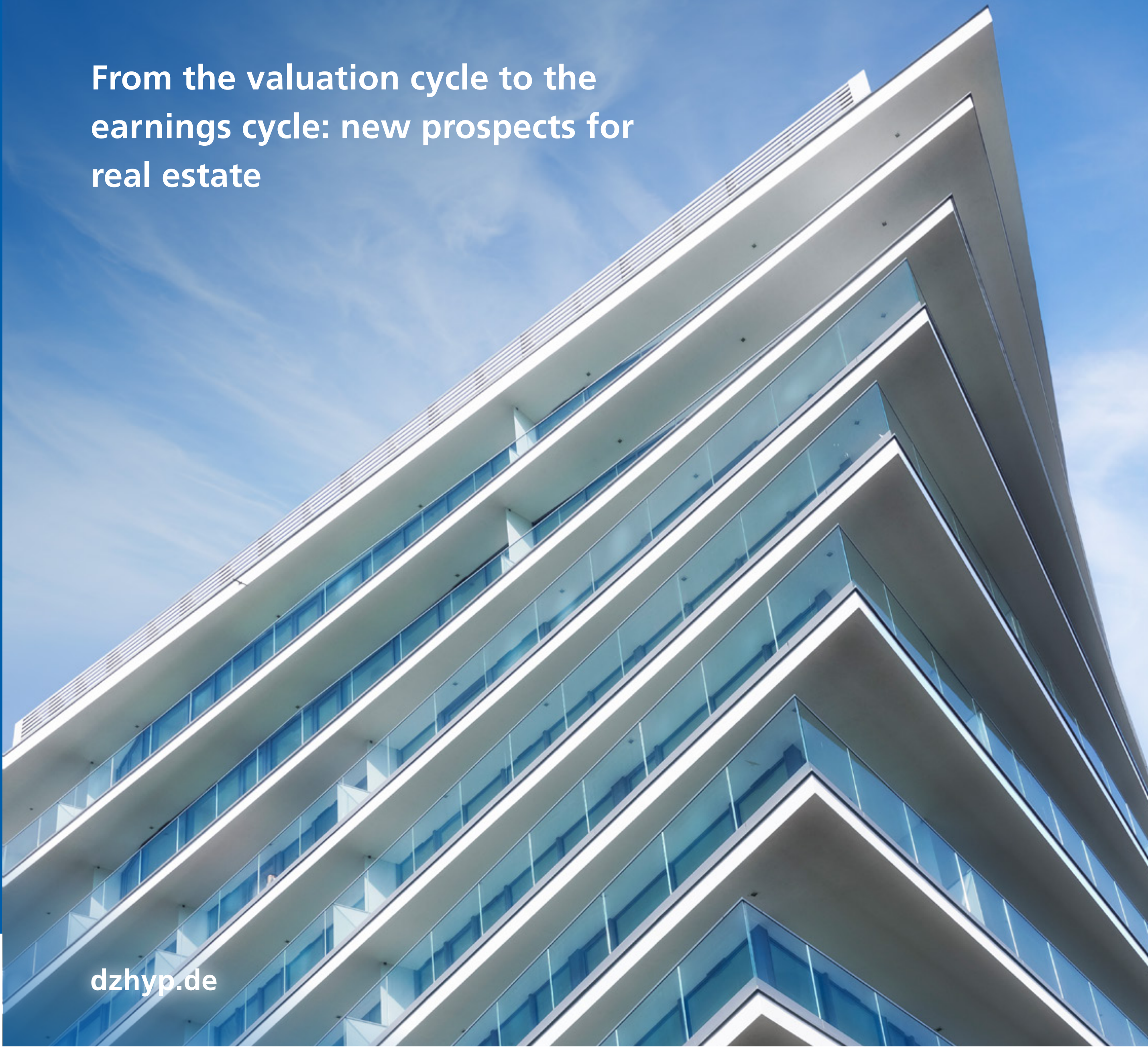

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TABLE OF CONTENTS

PREFACE

Dear readers,

In 2026, real estate markets will continue to be shaped by a challenging economic and geopolitical environment, structural changes to individual asset classes and demanding standards of sustainability and quality. At the same time, the performance of the various segments and submarkets is becoming even more differentiated. This real estate market report examines these complex developments in the retail, office and residential asset classes in Germany's seven top locations: Berlin, Cologne, Dusseldorf, Frankfurt/Main, Hamburg, Munich and Stuttgart.

From an investor's perspective, the residential real estate market remains the most stable segment. Here, there is both persistently strong demand and structural supply shortages, as new construction remains subdued and vacancy rates in many submarkets are still extremely low. This means that the outlook for rentals remains positive, even though the pace of rental growth, which is already very high, is likely to slow.

The bifurcation in the office market that has been visible for several years is continuing. While modern, sustainable floorspace in central locations continues to be sought after and prime rents are rising, older properties and peripheral locations in particular are suffering from a structural decline in demand. Vacancy rates continue to rise moderately, although the trend varies greatly from place to place.

In the retail sector, city centres remain under pressure as consumer reticence, loss of purchasing power and the ongoing structural change weaken the outlook for sales and rental space. At the same time, declining space requirements open up opportunities for conversions and a stronger functional mix in city centres. In the top locations, attractive retail space remains comparatively stable on account of favourable location factors such as purchasing power, tourism and footfall.

The 2026 German real estate market report is available in both German and English. All current reports can be downloaded from our website (**www.dzhyp.de/en/about-us/market-research/**).

Best regards,

DZ HYP

March 2026

SUMMARY

Challenges and prospects in the real estate market: 18th issue of our market report characterized by upheaval

» The steep hike in interest rates is already three years ago. The subsequent sharp fall in property valuations has now reversed again to some extent. This is particularly true of multi-occupancy homes, where levels are almost back at their 2022 peaks. Investment in the real estate market has also declined, but has not yet recovered. In 2025, investment volume was even down again slightly on the previous year. It is not difficult to see why. Factors include a structural decline in demand for commercial space, the sluggish German economy, more attractive capital market yields, and the expensive decarbonization of old buildings. At the beginning of 2026, BaFin (the Federal Financial Supervisory Authority) still sees major risks for commercial property. **The real estate market now faces a fundamentally different environment compared to the "golden era" from 2012 to 2022.**

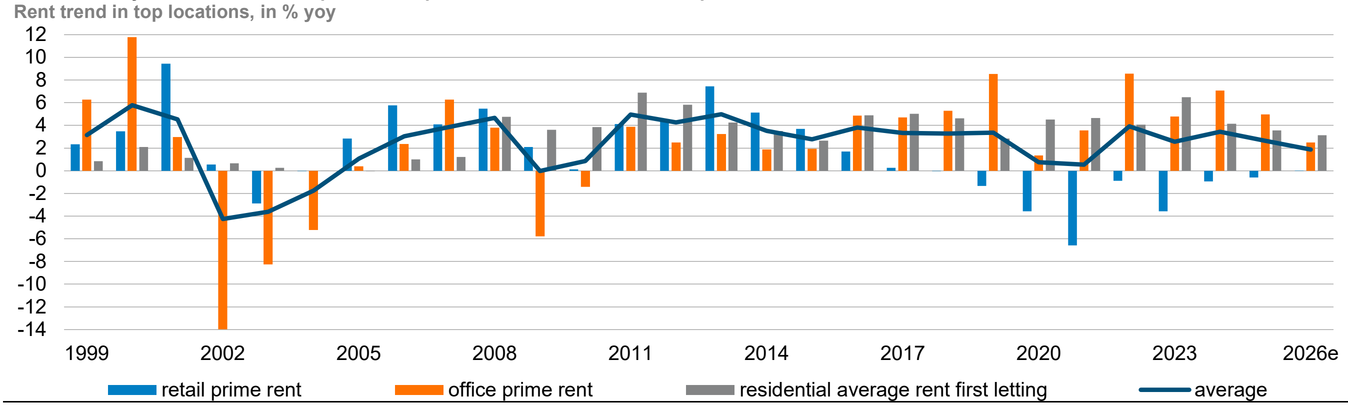
» In this **18th issue of our market report** we have summarized what we regard as the key factors impacting the altered environment for the real estate market. We describe the associated **challenges and prospects** for the real estate market as a whole, for new construction, and for various asset classes. We then provide an analysis of the **retail, office, and residential market segments, focused on the seven top locations of Berlin, Cologne, Duesseldorf, Frankfurt, Hamburg, Munich and Stuttgart**.

» The best prospects are in the **residential property** segment. Demand in the top locations exceeds an increasingly scarce supply, thus guaranteeing favorable rental prospects. However, continuing strict rent regulation is not the only challenge. Even higher rents are becoming increasingly unaffordable for private households who are already bearing a heavy cost burden – not only for housing.

» A widening gap is evident in **commercial real estate**. While demand for older properties and peripheral locations has weakened, attractive office and sales space in the city centers of top locations is easily let. Thanks to high rents, renovations and conversions are easier to realize than in cheaper or peripheral locations.

Rents virtually constant for retail space, while pace weakens for offices and apartments

Rent trend in top locations, in % yoy



Source: bulwiengesa, DZ BANK

Overview of segment-specific prospects

Trends in office, retail, and residential increasingly heterogeneous

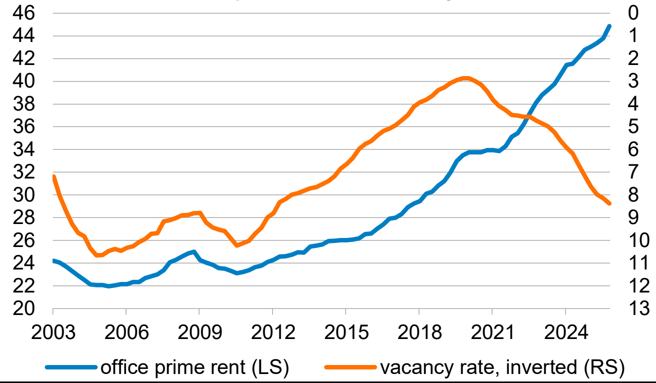
Given the heterogeneous trends within the various asset classes, general assessments of the real estate market have become less meaningful. Only the residential market can be characterized with some degree of accuracy in a few sentences: Low vacancy rates and steep rent increases are a fair description of conditions in many cities. Greater differentiation is needed for retail, and particularly the office market. In the office market, vacancy rates are mainly increasing in large locations, but remain at their low levels of several years ago in small and medium-sized locations. The opposite applies in the retail market. Sales space is in demand in large cities with high levels of consumption, while "the provinces" are more severely affected by the thinning out of branch networks.

Commercial real estate under massive pressure to adjust due to digitalization, climate change and demographics

While housing demand continued to grow as a result of demographic growth and the increasing number of single-person households, there has been a major shift in demand for commercial space. Advancing digitalization is a key factor here. E-commerce, remote work and AI require not only less, but also a different type of space. The one-way route towards climate-neutral properties, altered mobility, and demographics are also having an impact. The economy is also changing. Industry is in crisis, while services such as education, health and care are growing.

Office: Diverging trends in vacancy rates and prime rents

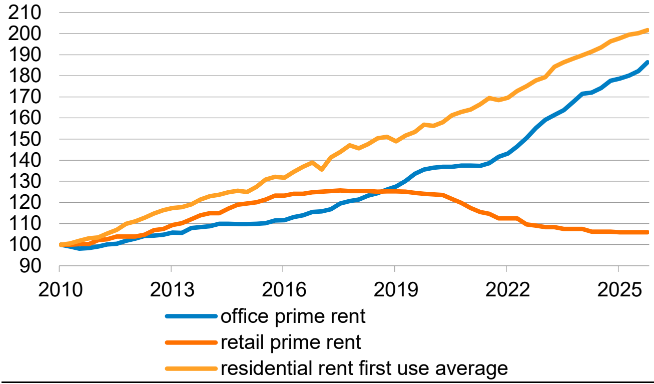
LS: Prime rents in EUR/sqm; RS: Inverted vacancy rate, in %



Source: bulwiengesa — top locations only

Rent trends diverging widely for some time

Rental indices, 2010 = 100



Source: bulwiengesa — top locations only

Retail: City-center retail weakened by consumer restraint

The anticipated strong recovery in city center retail after the pandemic failed to materialize. A change in shopping patterns caused by e-commerce was a contributory factor here. However, consumer restraint as a result of an inflation-driven loss of purchasing power, and a labor market weakened by economic conditions are having a greater impact. Nevertheless, this also creates opportunities. Although less sales space carries the risk of properties remaining permanently empty, it also creates scope for alternative use as offices, hotels, restaurants, leisure facilities and housing.

Prime rents in top locations should remain stable in 2026

Under difficult market conditions, the top locations benefit from favorable location factors. These include growing areas of population, strong purchasing power, and large visitor numbers. It is therefore unsurprising that the seven cities show a gradual increase in the proportion of city center retail space rented in Germany. The 16 per cent decline in prime rents here from their maximum levels of several years ago is also fairly muted. For more than three years prime rents have been stagnating at around EUR 250 per sqm, a level which should remain constant this year.

**Office:
Remote work and economic slowdown depress office rentals**

The reduced demand for office space prompted by “New Work”, remote work, and the ongoing economic slowdown have had a visible impact on office rentals. Low take-up has been associated with a steady rise in the number of vacant office properties since 2020. Since 2019, the vacancy rate has increased from less than 3 per cent to more than 8 per cent. The number of vacant properties is usually much lower in city centers than on the periphery. Finally, the highest demand is for centrally located modern space which facilitates communications and sustainability. However, these offices are in short supply and are expensive, partly because of the sharp rise in construction costs.

Prime rents continue to rise in sought-after city-center locations

The focus on modern city center offices led to a further increase in prime rents in top locations to an average of EUR 45 per sqm in 2025. Rents are likely to continue to increase, although not at the same pace. However, office rents are stagnating on the edge of city centers and in peripheral locations due to an altered demand profile and generally lower demand for space.

**Residential:
Housing markets in top locations characterized by housing shortage and extremely high rents**

For a long time, the rent trend was driven by housing markets in the top locations. However, the housing shortage which was the original cause is now a widespread problem in the German housing market. While residential rents are clearly rising outside the top locations, the pace of rent growth in the seven largest cities slowed visibly in 2025. However, this was not due to weaker demand, but essentially to extremely high rents. Average initial rents in the top locations increased to a good EUR 20 per sqm in 2025. On average, relets of existing apartments cost slightly more than EUR 15 per sqm. High rents are becoming increasingly unaffordable for private households already burdened by rising food prices, social security contributions, and energy costs.

Rent growth should move in parallel with income trend

The severe strain in the housing markets of the seven largest cities is particularly clear from the almost non-existent active market vacancy rates in some places. Conditions are not expected to ease any time soon given the crisis in new construction and the ongoing decline in the number of completions. The increase in initial rents is likely to move broadly in parallel with income growth.

Overview of rent trend in top locations

	Retail property Trend in prime rents in %					Office property Trend in prime rents in %					Residential property Trend in average initial rents in %				
	10 years 2015-2025	5 years 2020-2025	2024 yoy	2025 yoy	2026e yoy	10 years 2015-2025	5 years 2020-2025	2024 yoy	2025 yoy	2026e yoy	10 years 2015-2025	5 years 2020-2025	2024 yoy	2025 yoy	2026e yoy
Berlin	-15.0	-12.1	0.0	0.0	0.0	91.7	17.9	1.1	2.2	1.1	74.8	34.9	3.7	2.0	2.5
Cologne	-16.0	-14.3	-2.3	0.0	0.0	57.1	34.7	3.1	0.0	1.5	47.8	25.0	5.2	4.3	4.1
Düsseldorf	0.0	-3.6	0.0	0.0	0.0	83.3	66.0	16.3	4.8	3.4	37.1	27.8	3.3	9.7	2.9
Frankfurt	-13.0	-10.0	-1.5	0.0	0.0	49.3	29.3	3.3	11.6	3.8	45.2	18.1	5.6	4.8	4.1
Hamburg	-19.3	-14.8	-1.1	-2.1	0.0	48.0	19.4	2.3	4.8	2.7	40.2	24.2	4.8	5.1	4.3
Munich	-13.2	-11.9	-2.6	-0.7	0.0	70.1	46.8	16.1	7.4	3.4	49.4	15.1	4.1	3.1	2.5
Stuttgart	-22.4	-15.6	0.0	-2.6	0.0	81.3	45.8	15.0	1.4	1.4	50.0	9.1	2.3	2.3	2.8
Top locations	**-14.8**	**-12.1**	**-0.9**	**-0.6**	**0.0**	**68.3**	**32.4**	**7.1**	**5.0**	**2.5**	**55.0**	**25.1**	**4.1**	**3.6**	**3.1**

Source: bulwiengesa, DZ BANK Research forecast

ECONOMIC CLIMATE IN GERMANY

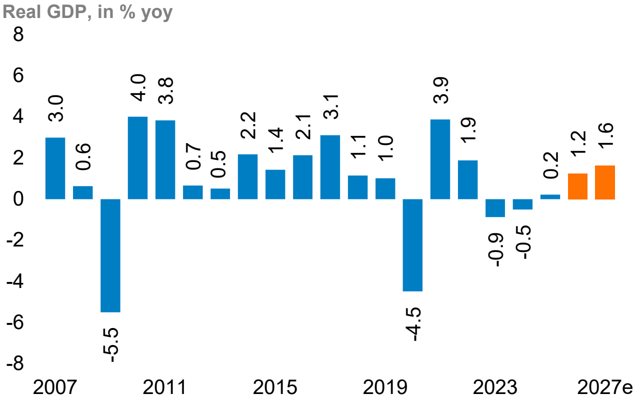
After three years of stagnation, the German economy should grow again in 2026

The German economy grew by a meagre 0.2 per cent in 2025. The USA's aggressive tariff policy and growing competitive pressure from China are creating headwinds. The decline was particularly marked for exports and investment. Public and private consumption provided support. We expect a visible recovery this year with economic growth of 1.2 per cent. In contrast to earlier, export-driven recovery phases, key factors this time will be debt-financed spending programs on infrastructure, climate protection and defense. The first shoots are already visible in the form of growth in industrial production and order intakes. Domestic demand in particular has picked up.

Inflation close to ECB target again

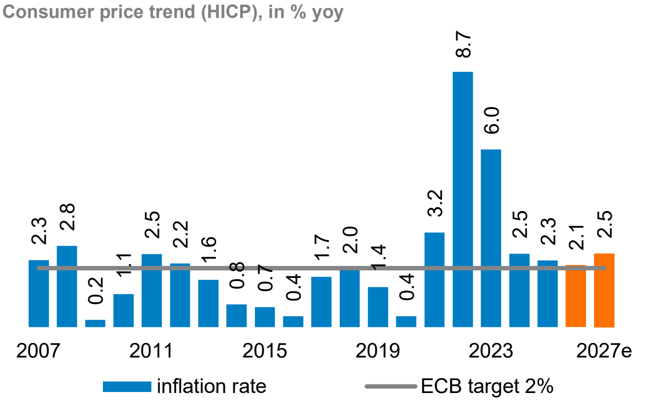
Price pressure eased in December. The inflation rate reached around 2.0 per cent. In full-year 2025, the German inflation rate based on the European definition (HICP) was 2.3 per cent. This is its lowest level since the period of high inflation in the years 2022 and 2023. This year opposing factors will impact prices. Energy prices should have an initially dampening effect as the oil price tends downwards. Lower sales tax in the hospitality sector and the removal of network charges are helping to slow inflation. Conversely, the higher price of CO_2 and the price hike for the Deutschland rail ticket are driving it up. The economic revival could also lead to price increases. The inflation rate is likely to reach 2.1 per cent in 2026 compared to 2.3 per cent last year.

Macroeconomic trend
Real GDP, in % yoy



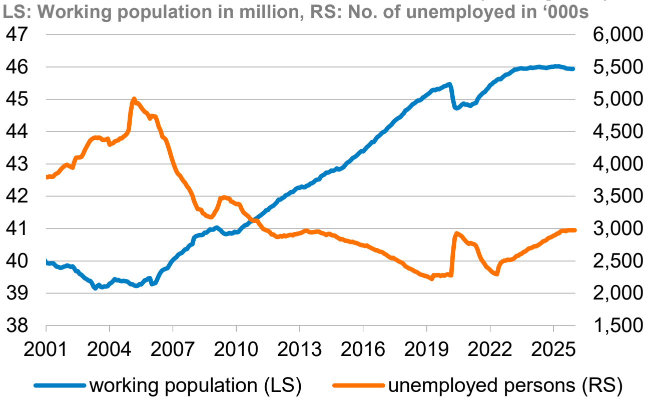
Source: Eurostat, DZ BANK

Inflation trend
Consumer price trend (HICP), in % yoy



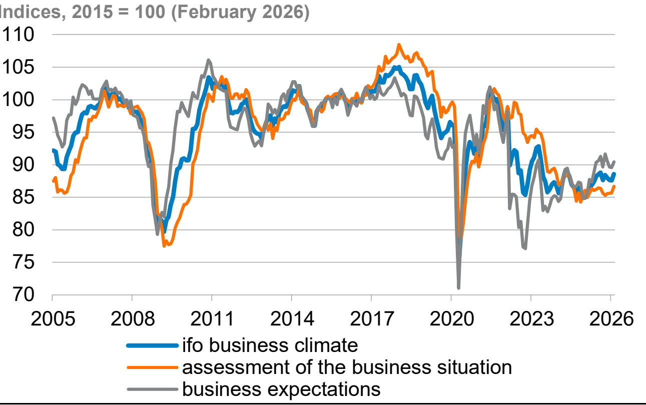
Source: Eurostat, DZ BANK

Labor market trend (January 2026)
LS: Working population in million, RS: No. of unemployed in '000s



Source: German Federal Employment Agency

Ifo Business Climate Index
Indices, 2015 = 100 (February 2026)



Source: ifo Institute

HOUSEBUILDING ACTIVITY PICKS UP AGAIN

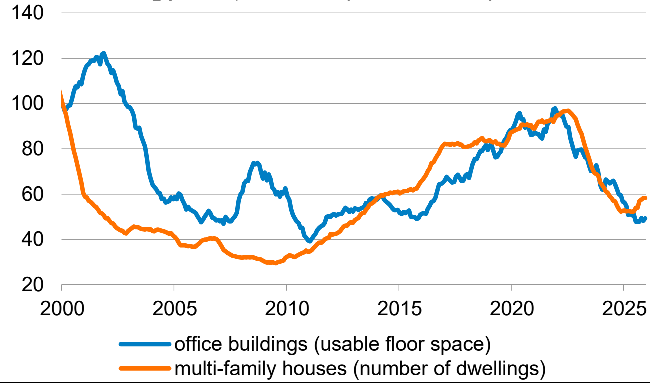
After falling sharply, number of approved apartments rises again

Rapidly rising building costs and interest rates are causing problems for the capital-intensive real estate sector. Given the significantly higher cost burden, building new residential and commercial property makes little sense even with strong growth in rents. Housing associations are also being hit by higher operating costs for existing properties and the need for energy-related renovation. However, the downward trend in building approvals came to a halt and returned to positive levels in 2025 as a result of high housing demand, strong rent growth and the additional funding required for subsidized housebuilding. The downward trend in commercial real estate does appear to have at least come to a halt. A weak economy and increasing vacancy rates for office and logistics properties are slowing the reversal of the trend in commercial construction.

High infrastructure investment may exert ongoing pressure on construction costs

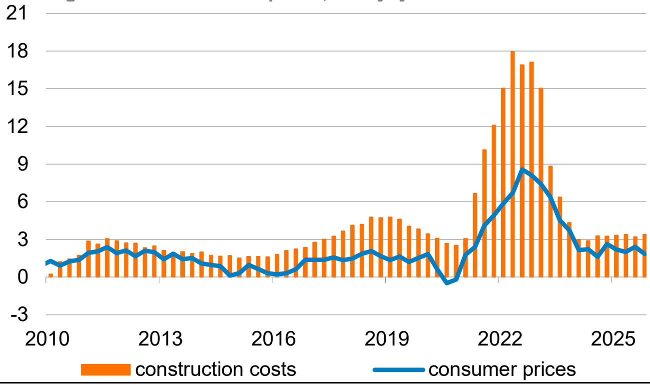
The number of completions has also fallen since 2024 as building approvals decline. Supply in the housing market as a whole and in the premium segment of the office market therefore remains strained. In contrast to weak construction, the civil engineering sector is growing strongly thanks to public investment in infrastructure. There is a risk that construction demand from the EUR 500bn Special Fund for Infrastructure and Climate Neutrality (SVIK) will accelerate the upward movement in construction prices. Consequently, it is all the more important for the planned reduction in new building costs - for example based on the planned Building Type E blueprint - to take effect.

Housing building permits increase again, the decline for offices seems to have at least come to a halt
Index for building permits, 2000 = 100 (December 2025)



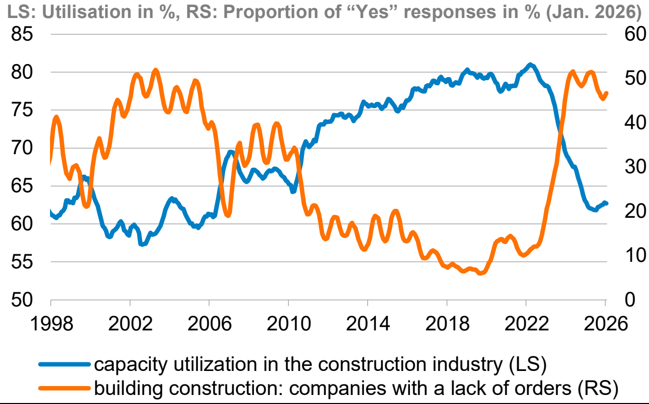
Source: Eurostat

Cost pressure in construction remains high: Building costs still rising faster than consumer prices
Building costs and consumer prices, in % yoy



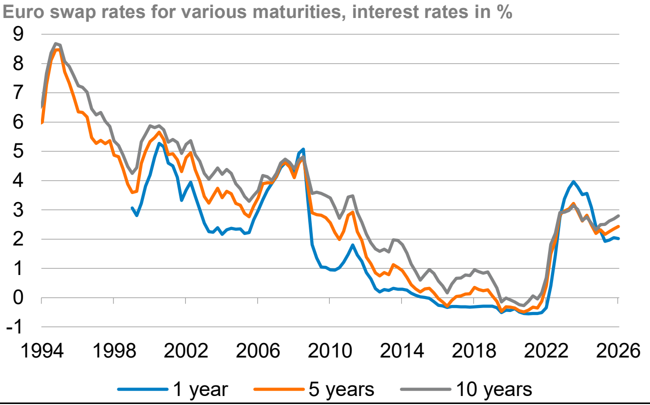
Source: Destatis

Construction companies: Downward trend in sector at an end
LS: Utilisation in %, RS: Proportion of "Yes" responses in % (Jan. 2026)



Source: ifo Institute

Capital-intensive real estate sector hit by higher interest rates
Euro swap rates for various maturities, interest rates in %



Source: Oxford Economics

KEY ISSUE: OUTLOOK FOR THE REAL ESTATE MARKET

Major shift: Economy, society, climate

Much grumbling: Affluent country with often home-grown backlog of problems

Germany is an affluent country where the financial assets of private households increased to EUR 10 trillion in 2025. However, this substantial financial buffer is not giving rising to much joy. In fact, the mood is gloomy. In addition to geopolitical crises, people are particularly concerned about the economy, which has not grown since 2022. In two subsequent years of recession, followed by growth of 0.2 per cent in 2025, Europe's largest economy is also its growth brake. There has also been a shift in the labor market. Even well-educated specialists and managers in industry fear for their jobs. The job application process has even become difficult for graduates of MINT (the equivalent of STEM) study programs. The largely home-grown backlog of problems relating to bureaucracy, demographics, digitalization, energy, infrastructure, climate change, social security systems, defense and the housing market need to be tackled urgently.

Reorientation in real estate market: Conditions have completely changed

The real estate market also faces other challenges. Interest rates have risen sharply since 2022. New construction has also become much more expensive. Remote work, e-commerce and AI are also having a negative impact on demand for commercial real estate, while potential tenants have much higher requirements in terms of quality, location and sustainability. Investors tend to favor tech stocks, precious metals and cryptocurrencies over real estate. Investment in commercial real estate has been at a very low level since 2023.

Challenges and opportunities in the real estate market

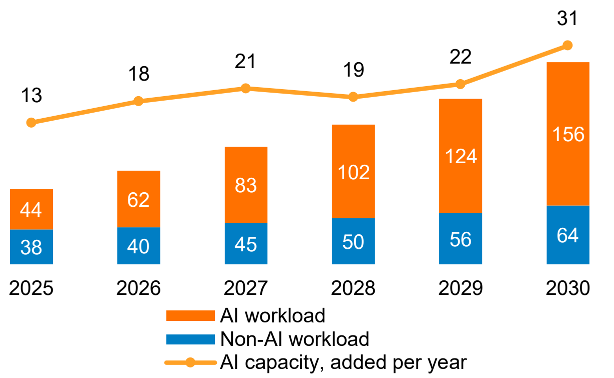
What impact will the changes have on the real estate market? A new property boom is unlikely, although as well as challenges, there are also a number of opportunities in the various asset classes. Below we provide an overview of what we consider to be the relevant factors of influence, before examining the respective prospects.

Digitalization: Leading to a fundamental shift in life and work

Digitalization reduces demand for commercial space due to remote work, e-commerce and AI

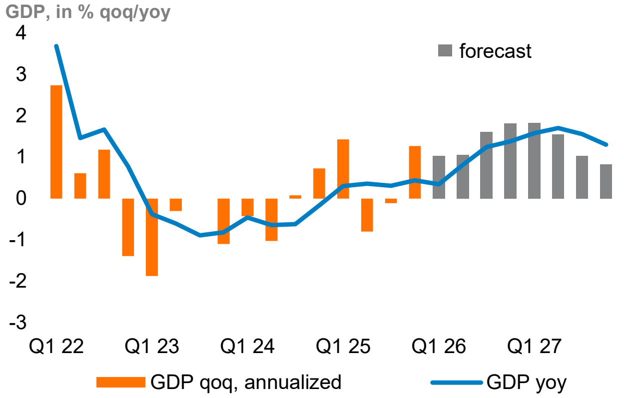
One crucial factor is digitalization, which has already led to major changes for work, shopping and leisure. Mobile working, online shopping and streaming providers have considerably reduced demand for offices, city center sales space and cinemas. Obsolete commercial properties often lie empty or are repurposed.

AI applications in particular lead to surge in electricity demand for data centers
Forecast electricity demand for global data centers, in gigawatts



Source: McKinsey
AI = Artificial Intelligence

Structural growth weakness: Revival through debt-financed fiscal measures is short-lived
GDP, in % qoq/yoy



Source: Eurostat, DZ BANK

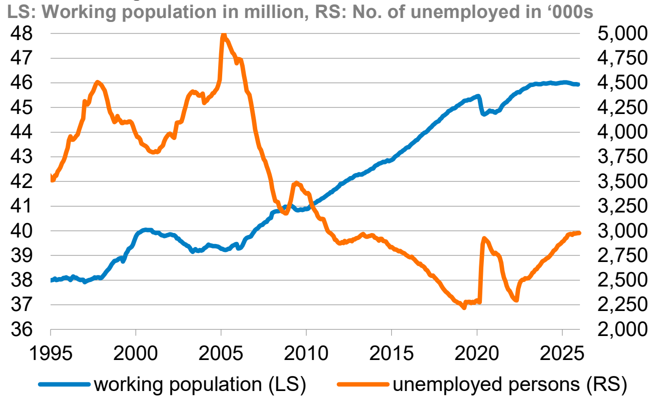
In the office sector in particular, the process has not yet been completed. Remote work continues to lead to space adjustment. Increasingly powerful AI applications are also gradually assuming tasks, and replacing some office workers. It is not yet clear whether many jobs will be lost or whether new ones may be created. However, AI will help to offset the consequences of the demographically-driven contraction in the labor supply.

German economy: Structural growth weakness instead of economic slowdown

Growth prospects for German economy remain subdued

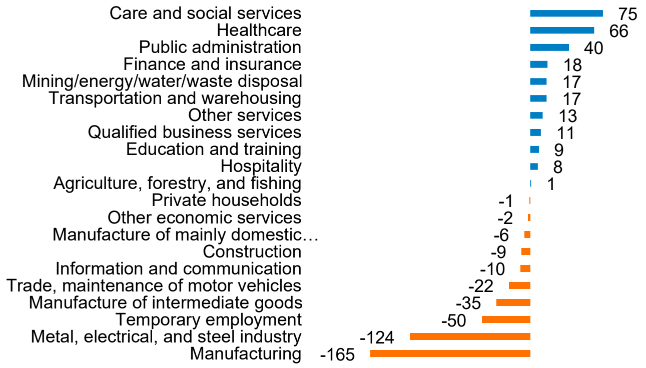
Demand for commercial property is always a mirror image of economic activity. Economic fluctuations are a regular feature of a market economy. However, the causes of the current weakness are essentially structural and are hampering economic recovery. The debt-financed economic recovery driven by public investment will create growth impetus, although the effect will be short-lived if reforms do not provide additional support for economic activity. Otherwise, there is a risk of low potential growth due to a skills shortage, rising unit labor costs, bureaucracy and tougher international competition. The reliable economic growth of the pre-pandemic era will be lacking as a demand driver for commercial real estate.

Employment within range of historic peak levels, but unemployment also increasing due to the economic slowdown
LS: Working population in million, RS: No. of unemployed in '000s



Source: BA

Decline in industrial jobs offsets additional jobs in social sectors and public administration
Employment*, in '000 employees yoy (September 2025)



Source: BA

*) subject to social security contributions

Presumed stability in labor market: Economic slowdown leads to significant job losses

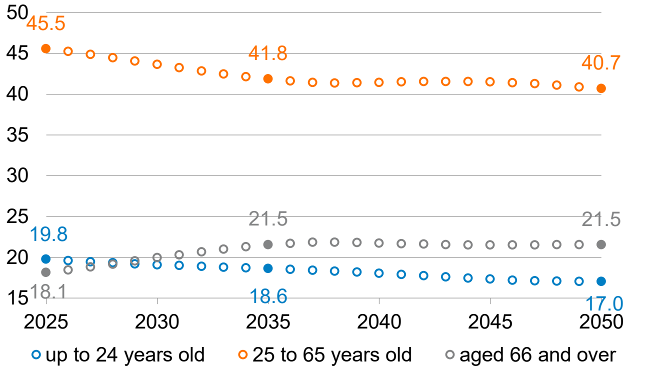
The number of people in work remains close to its historic peak of nearly 46 million in 2024 despite the economic slowdown which has lasted for several years. However, this apparent stability is deceptive, since the economic downturn has increased the number of people unemployed again to more than 3 million. The high employment level is also being driven by new jobs in the social sectors and public administration. Conversely, many jobs have been shed in the manufacturing sector and in industry.

Demographics: Ageing population reduces labor supply on a sustained basis

Labor supply contracts sharply due to demographics

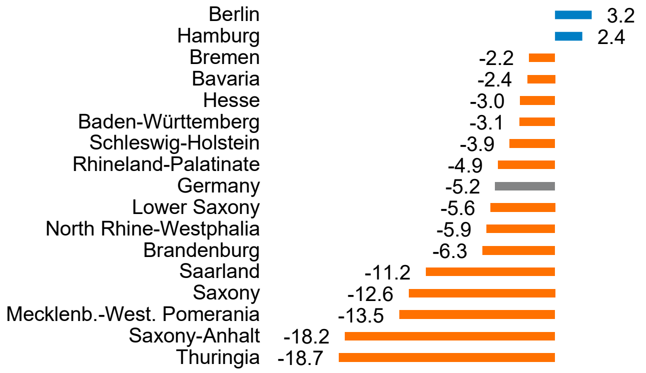
Even with a flourishing economy, the high level of employment cannot be sustained for much longer. Baby boomers born in high birth rate years are gradually entering retirement and the number of workers born in lower birth rate years is insufficient to replace them. The updated population projection from the Federal Statistical Office of Germany at the end of 2025 indicates a sharp decline in the economically active population. The shift will also take place within a short period of time and will be virtually impossible to offset with immigration. In a moderate scenario, the 25-65 age group will shrink from 45.5 million to 41.8 million by 2035. The rate of decline

Fewer workers: By 2035 the economically active section of the population will contract sharply, but the decline will then slow
Population by age groups, in million people



Source: Destatis (16th coordinated population projection)
Variant 2 based on a moderate birth rate, life expectancy and immigration

Regional differences: Demographic trends in the 16 federal states diverge widely
Change in population from 2024 to 2050, in %



Source: Destatis (16th coordinated population projection)
Variant 2 based on a moderate birth rate, life expectancy and immigration

will subsequently flatten significantly. The age group up to 24 is also contracting, while the number of older people will increase from currently 18.1 million to 21.5 million by 2035. The labor supply could however be expanded, for example by increasing the working hours of many part-time workers or by raising the retirement age.

Regional demographic trends differ

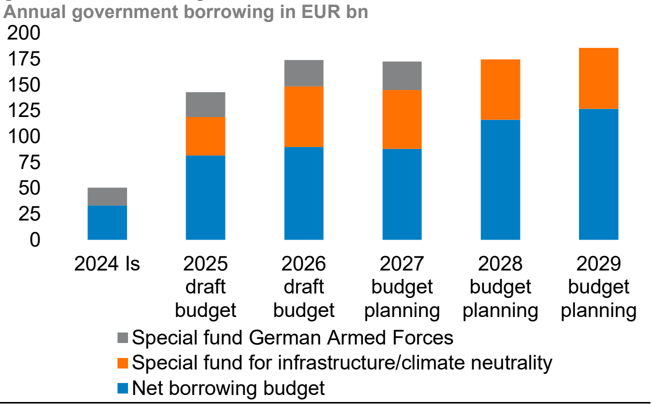
Regional demographic trends also vary. Growing conurbations such as Berlin, Hamburg and Munich contrast with parts of Germany where the population is shrinking. The population of east Germany is likely to contract particularly sharply. Saxony-Anhalt and Thuringia could lose almost 20 per cent of their populations by 2050. This would be more than four times the average figure for Germany. The situation looks more positive in Brandenburg because the area around Berlin benefits from the expensive and strained housing market in the capital city.

Spending surge and revenue erosion: Rising costs also impact real estate

High spending ahead: Government, federal states and local authorities must invest heavily

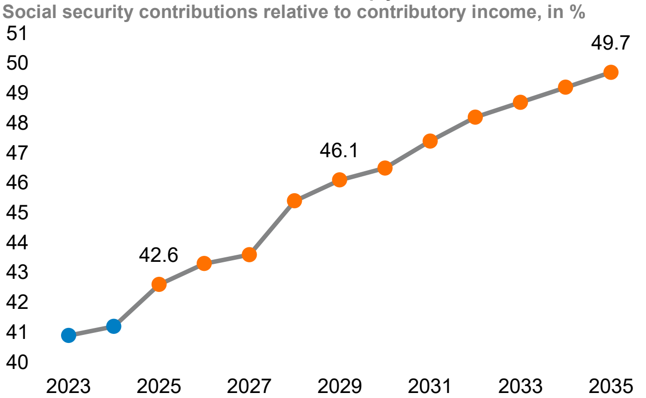
Citizens are likely to face higher taxes in the years ahead. The government's growing burden of interest and repayment charges for debt-financed investment, climate change, and higher spending on social security must be financed. In a prolonged period of weak economic growth, tax revenues increase more slowly, and new sources are therefore necessary.

High investment requirement for infrastructure and defense drives up government borrowing
Annual government borrowing in EUR bn



Source: Federal Ministry of Finance

More older people, fewer taxpayers: contributions for pensions, care and health insurance could increase sharply
Social security contributions relative to contributory income, in %



Source: IGES

Sharp rise in social security contributions

In the future, social security will see a noticeable increase in contribution rates and federal subsidies due to more retirees and pensioners, fewer contributors, and a rising average age of the population. Contributions could increase even more sharply in the absence of, or due to the reversal of reforms such as the suspension of the "demographic factor" in pension insurance or the recently agreed third level of maternity benefit.

Expensive climate neutrality by 2045

With the first draft of the "Heating Law", many citizens became aware that the climate neutrality targeted by 2045 is an expensive undertaking. Switching from fossil fuel to renewable energy carriers, the expansion of electricity and local heating networks and energy-related renovation of the housing stock will require huge sums, a large proportion of which will have to be financed by private households. The same applies to tenants because modernization costs can be transferred via rents. Heating costs are also likely to increase as a result of higher CO_2 prices.

Tighter budgets for private households mean less income for retailers and landlords

The likely considerably heavier financial burden for private households is relevant for the real estate market because it will limit the scope to finance an owner-occupied property, rent payments, retail, and leisure and holidays. In addition to weak consumer spending, which is already having a negative impact on city center retail, it could become more difficult for households to pay higher rents.

Defense: German military needs space for personnel and equipment

NATO defense spending target rises to 3.5 percent plus an additional 1.5 percent for security-related infrastructure

The further hike in defense spending is also having a direct impact on the real estate market. In the past, defense spending had for many years fallen short of the NATO target of 2 per cent of GDP. The number of military personnel has also fallen, compounded by the abolition of military service. As a consequence, Germany's armed forces (the Bundeswehr) have needed fewer properties which have then been available for alternative usages and urban development. However, as a result of the changes in the security situation in Europe, a substantial increase in defense spending is planned, which will include raising the NATO target to 3.5 per cent of GDP. According to the NATO summit in May 2025, the Bundeswehr is to be expanded from currently 184,000 soldiers to a maximum of 260,000 by the 2030s. The defense capability will also be improved by investing in new weapons systems.

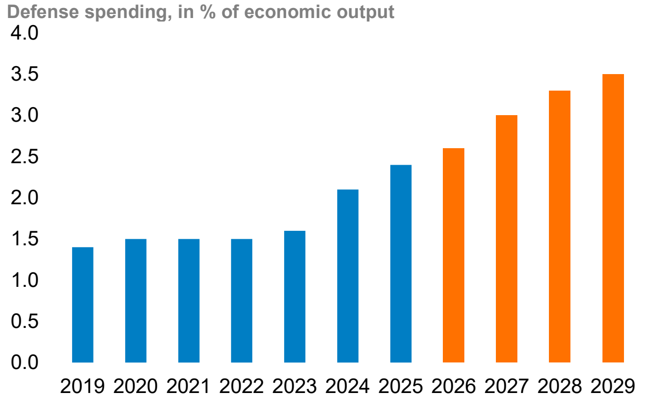
Housing market: Expensive housing and increasing regulation

Over-regulation of housebuilding and rental continue to restrict supply

In many cities, living space is in short supply and is expensive. Reserves of vacant properties in the residential market are non-existent in many places, with virtually no

Steep rise: Germany investing heavily in national defense

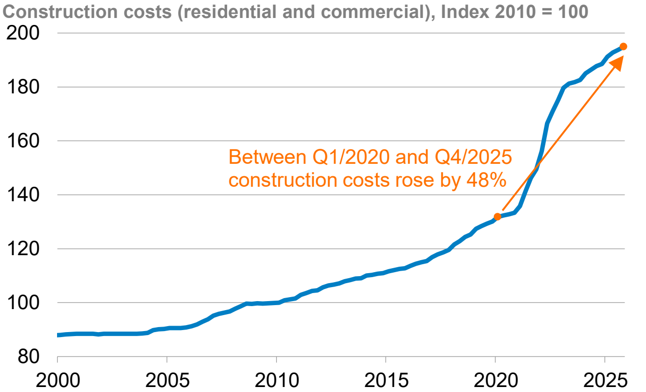
Defense spending, in % of economic output



Source: statista

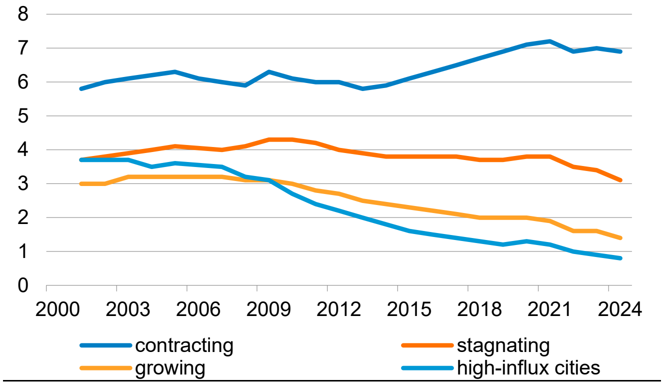
Construction of residential and commercial property now much more expensive in Germany

Construction costs (residential and commercial), Index 2010 = 100



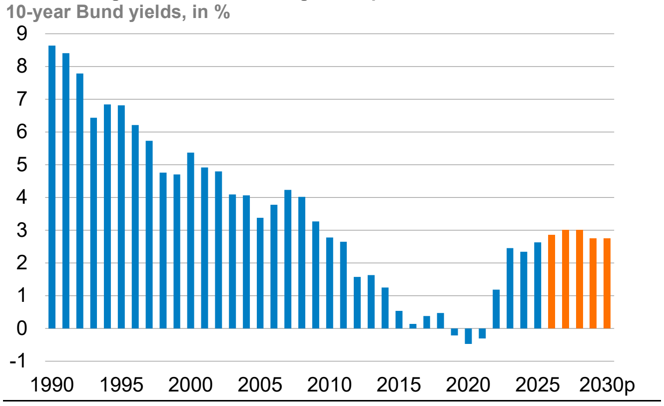
Source: Destatis

Strained housing market in growth regions hampers mobility of citizens
Market-active vacancy rate, in %



Source: CBRE/empirica

High plateau instead of interest rate slide: Rising property valuations due to falling interest rates a thing of the past
10-year Bund yields, in %



Source: Macrobond, DZ BANK

new apartments becoming available due to insufficient new construction. There are no signs of any rapid improvement, even with more moderate levels of migration. New building is likely to remain subdued as a result of a sharp rise in construction costs, excessive building regulations, environmental restrictions, and resistance from urban populations. The number of available apartments from the existing housing stock is also declining increasingly because relocation is unattractive in the over-regulated housing market due to the divergence between rents for new and existing properties.

Building subsidies fail due to tight budgets, and rental law reform due to political enforceability

Opportunities to improve the supply are also limited. It is virtually impossible to realize significantly higher rents for a profitable, privately financed new build given already high rents and the weak economic climate. However, smaller and cheaper apartments could gradually become more popular. Building subsidies based on large-scale support programs are likely to fail due to underfunded budgets at government, federal state, and local authority levels. Root and branch reform of rental law is unlikely to be politically enforceable. The pressure on politicians is likely to intensify as tensions in the housing market persist, suggesting more regulation.

Plateau instead of interest rate slide: Capital growth no longer driving yields

Cash flow from rental income could again become the main contributor to real estate yields

Bond yields and interest rates followed a downward trend for nearly 30 years. In 2022, they surged and have since remained at their higher levels. Growing government debt could cause 10-year Bund yields to settle at an interest plateau of around 3 per cent, and cheaper financing for real estate therefore becomes less likely. Property valuations are not expected to increase as a result of falling interest rates, and capital growth is therefore becoming much less important as a driver of real estate yields. Conversely, cash flow from rents will again become the dominant element of yields.

Challenges and opportunities: Longer-term implications for German real estate

Large European real estate location loses its lustre

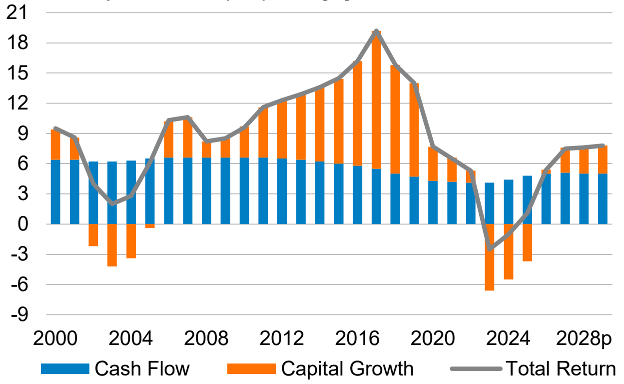
» **Germany remains an important location for real estate investment**
Funds outflows from open-ended real estate funds should not be over-interpreted since they do not reflect investors' general view of the German property market. Real estate investors will continue to closely monitor the third largest economy in the world. However, its safe haven status is also crumbling along with its infrastructure and the economic downturn, while other European economies are growing faster and offer correspondingly good investment prospects. Germany could therefore account for a smaller proportion of European real estate investment in future.

» **Real estate offers prospects: But selection is becoming more challenging**
A more selective approach to real estate investment is now required. Without impetus from falling interest rates, the performance of a real estate investment is essentially determined by its rental prospects. When considering an investment, even greater care should be taken when selecting the property and the location. Good rental management is of crucial importance for returns by means of levers such as vacancy reduction and rent increases. Given the strained housing market, the focus is likely to remain on residential property. Industrial and logistics properties are benefiting from investment in infrastructure and defense.

Optimisation of rental income becoming considerably more important

Cash flow is king: Rental income likely to be the key factor for the total property yield in future

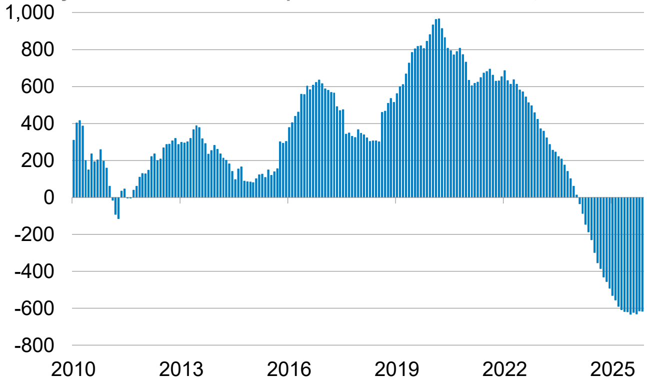
Real estate performance (GPI), in % yoy



Source: bulwiengesa GPI = German Property Index

Investors withdraw from real estate funds after property boom

Monthly inflows/outflows from open-ended real estate funds, in EUR m



Source: Bundesbank

» **New construction: Higher building and financing costs and environmental restrictions could lead to a prolonged supply shortage**
Higher interest rates and increased building costs are braking new construction. Compounded by high infrastructure investment, building costs are likely to continue to rise. Environmental restrictions such as the climate resilience of cities and climate neutrality may create additional problems for new construction. Modernization and the repurposing of existing properties will become more important than demolition and new construction.

New construction remains a bottleneck in the real estate market

» **Decarbonization in the buildings sector: Growing pressure for action because greenhouse gas emissions are declining too slowly**
Germany met its climate target in 2025. Contributory factors were the expansion of renewable energy production and the economic slowdown. However, there were red cards for the transport sector and for buildings where CO_2 emissions are being reduced too slowly. If progress does not accelerate, climate targets may not be reached. A lack of clarity on the rules is nevertheless hampering renovation efforts at the moment, with many property owners awaiting the final details.

Greenhouse gas emissions in the buildings sector must be reduced faster

Data centers: AI and Cloud services will require strong growth in computing capacity
<u>Challenge:</u> Data centers are a particular asset class since the lion's share of investment is in the technology and not the building. High energy requirements are exerting pressure on an already overstretched power grid. A lack of connection capacity is hampering the construction of data centers, and high electricity prices are making them more expensive to operate. Demand for data centers could be reduced by using more powerful AI algorithms or high - performance quantum computers.

Energy a bottleneck for the expansion of the digital infrastructure

Opportunity: Large sums are likely to be invested in expanding the digital infrastructure in Germany in the years ahead. The German government plans to double capacity by 2030 and to reduce electricity prices.

» **Care homes: Strong growth for older people in need of care**

Increasing need for care and growing financing shortfalls

The demographic shift in the potential labor force could be followed some years later by a surge in the number of very elderly people in need of care. Challenge: The already strained nursing care insurance fund, a possible decline in pension levels, and inadequate provision by many private households on the back of rising care costs will make it more difficult to finance care homes. Residential care is also already highly regulated today.
Opportunity: The need for care homes and sheltered housing will increase significantly in the years ahead and will provide broad investment potential. Many elderly people have the financial means to afford a comfortable retirement home.

» **Defense: Additional premises needed for growing Bundeswehr**

Urban development will become even more challenging due to demand from the Bundeswehr

The Bundeswehr will now need to use many properties which were obsolete until recently to accommodate new equipment and a growing number of personnel. More land is also likely to be needed. To become an attractive employer for young people, locations in sought-after regions will be necessary.
Challenge: Virtually no Bundeswehr sites will now be available for urban development. In conurbations, there are signs of growing competition for space which is in short supply for residential and commercial use.
Opportunity: The Bundeswehr is a major new customer in the real estate sector, which will have to invest in substantial real estate under time pressure.

» **Logistics: Backbone of economy and e-commerce**

Opportunities, but also heightened risks from international factors

Logistics has developed dynamically as the backbone of global trade, complex supply chains and e-commerce. Logistics properties are a correspondingly sought-after asset class, on a par in terms of investment volume with office and retail premises.
Challenge: Economic growth, geopolitical crises, "trade wars", or the diversification of supply chains as a result of near-shoring, are having a direct impact on logistics. Regional locations or individual segments may differ visibly in terms of their development from the logistics market as a whole. The German logistics sector is suffering from a growing skills shortage (truck drivers and employees in logistics centers). There is often considerable local opposition to new logistics premises.
Opportunity: Increased spending on defense and infrastructure is associated with a significant increase in demand for logistics properties. Automation and digitalization are improving efficiency and facilitating shorter reaction times. They help to mitigate rising costs and the skills shortage.

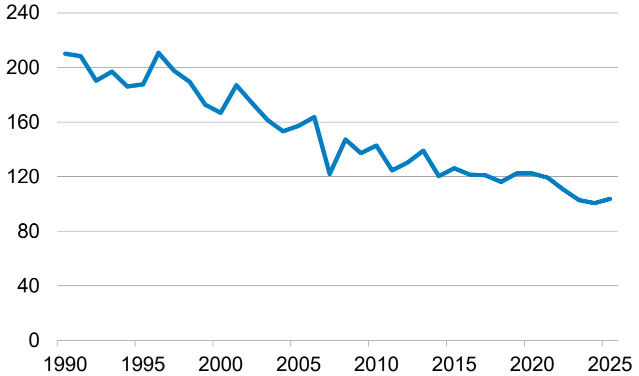
» **Retail: City center retail remains under pressure as many private households are forced to tighten their belts**

Virtually no growth prospects for in-store retail

Retail sales growth could be below-average in the coming years. As a result of higher taxes and social security contributions as well as rising housing costs, households have less money to spend. Substantial financial assets are of little help since they are distributed unevenly. Many households have little or no reserves as a buffer for higher spending.
Challenge: E-commerce may lead to a further erosion of city center sales. Apart from sought-after locations, traditional city center retail is gradually shrinking further. In the absence of alternative usage concepts, city centers are becoming deserted, and rents are falling further.

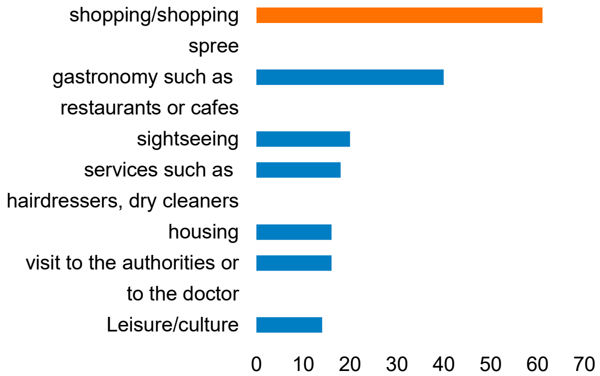
Opportunity: Retail chains are concentrating their branch networks on city center locations with good prospects, characterised by above-average purchasing power, demographic growth, and strong tourism. Attractive sales space remains in demand in top locations and selected regional centers.

Virtually no further reduction in greenhouse gases in buildings sector
Buildings emissions, in million tonnes carbon dioxide equivalent



Source: Federal Environment Agency, Agora Energiewende

Without an attractive retail offer, city centers are at risk of atrophy
Motivation to visit a city center, proportion in %*



Source: IFH Cologne *) multiple answers possible

» **Office: Demand remains buoyant in good locations, but is falling in peripheral areas due to remote work, the economy, AI and demographics**

Favorable prospects for modern offices in good locations

Office space usage will probably continue to decline, and the diverging trends in various office locations already visible today will persist. Rent growth will be virtually impossible to achieve other than for attractive office locations and modern space.
Challenge: As a result of the structural decline in demand for office space, the prospects for unattractive office locations remain weak. An economic recovery would also not lead to any significant improvement for these locations.
Opportunity: Rental prospects are favorable for modern, sustainable office space in attractive locations. In addition to expensive city center locations, the same should apply to office space with a good price-performance ratio.

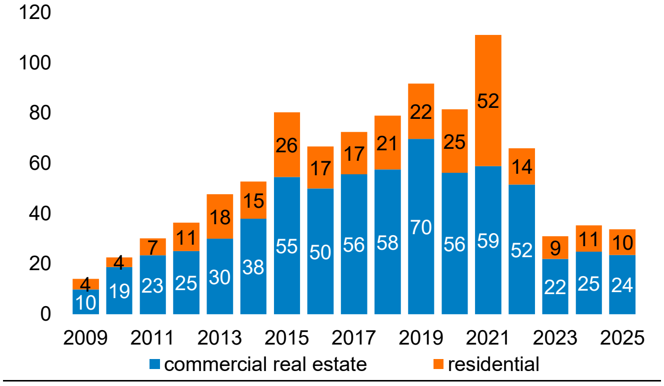
» **Residential: High costs, tighter budgets, more regulation**

Rent growth curbed by budget constraints as well as rent regulation

Housing markets remain strained due to moderate levels of new build activity and inefficient use of the existing housing stock. Tight budgets for private households are curbing expenditure on housing.
Challenge: Rental activity is increasingly caught between regulation, modernization and cost efficiency. Higher rents are more difficult to implement because of budget constraints. Demographic change is leading to higher vacancy rates in regions with net outward migration.
Opportunity: The general prospects for renting living space remain very favorable. The vacancy risk is usually small. Small private landlords, who own two thirds of rental apartments, are increasingly overburdened by regulation and modernization and are withdrawing from the rental business. This will create growth prospects for professional landlords as well as investment opportunities for investors.

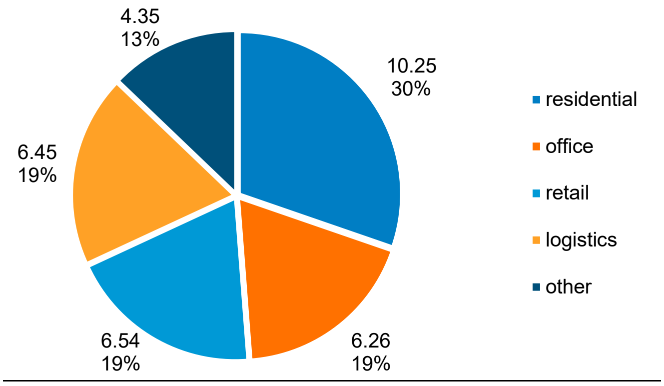
REAL ESTATE INVESTMENT REMAINED WEAK IN 2025

Investment in real estate remained weak in 2025
Real estate investment from 2009 to 2025, in EUR bn



Source: JLL

Housing is the dominant asset class
Real estate investment 2025, in EUR bn



Source: JLL

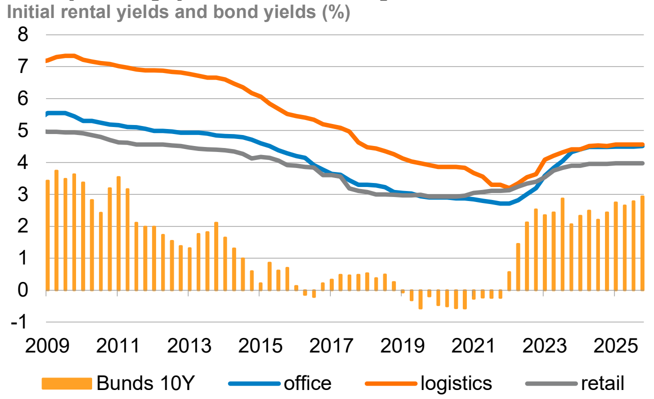
After the steep rise in capital market yields, investment in commercial property and housing portfolios declined sharply. While, on average, more than EUR 80bn was invested each year from 2015 to 2022, in 2023 the figure was only EUR 31bn. Levels did increase slightly in 2024, however the hoped-for market recovery still failed to materialize in 2025, and levels declined again. This is not surprising, since the impact of negative factors such as higher interest rates, a structural increase in vacancy rates as a result of remote work and e-commerce, and weak economic growth remained undiminished. This was compounded by competition to attract investment from countries with dynamically growing economies such as Portugal and Spain.

Hoped-for recovery in real estate investment still failed to materialize in 2025

The pressure on large real estate investors has also eased because the capital market is now offering significantly higher yields for pension funds and life insurance companies again. Initial rental yields for properties have also risen, but not to the same extent as bonds. The yield divergence from Bunds has thus narrowed. And many investors do not want to increase further the previously enlarged proportion of real estate in their portfolios. Because they involve high funds outflows, real estate funds are to be found on the sell side. For these reasons, virtually no more large-volume transactions in triple-digit millions are now being carried out. Other investors such as Family Offices are still buying, if good opportunities arise, but amounts are mainly in double digits.

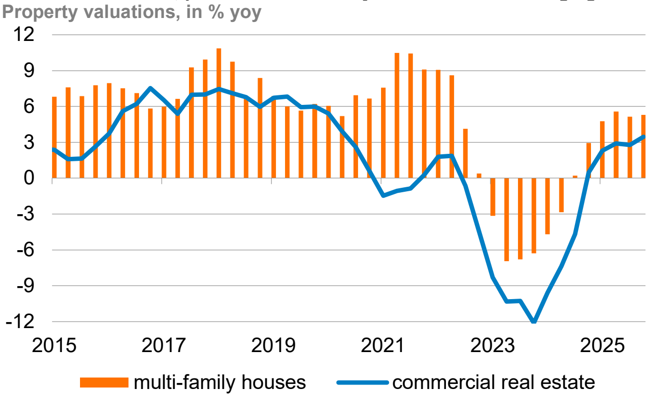
Traditional property investors such as pension funds, insurance companies and investment funds absent from the market

Rental yields largely stable at their now higher level
Initial rental yields and bond yields (%)



Source: bulwiengesa, Macrobond

After the correction, prices of multi-family homes are increasing again
Property valuations, in % yoy



Source: vdp

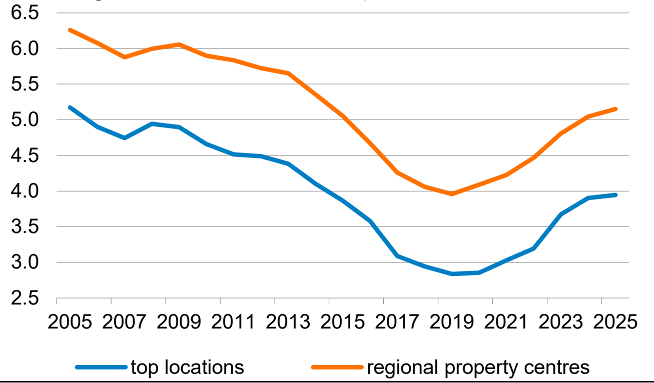
After the market corrections, valuations are also rising again. Thanks to favorable rental prospects, the uptick for multi-family homes is significantly larger than for commercial properties.

Valuations of multi-family homes picking up again strongly

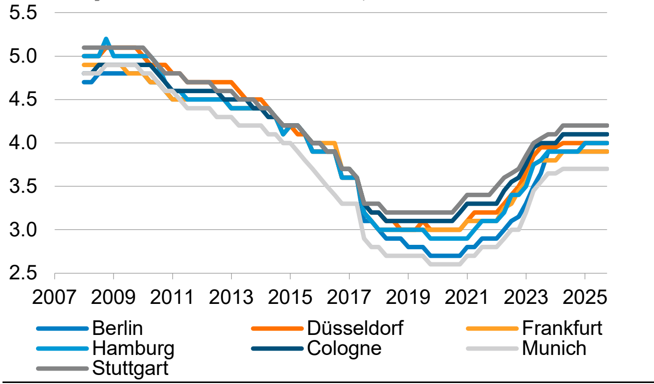
In the top locations, rental yields and multi-family home multipliers generally show a homogeneous trend and have been largely stable since 2024. Previously, rental yields had increased by 180 basis points for offices and by 100 basis points for retail properties. Rent multipliers for multi-family homes have declined from an average of 34 (2022) to around 24 (2025). However, this is not a low level, since the figure was significantly lower up to 2010 at around 16 years of rent.

Rental yields and multi-family home multipliers remain stable

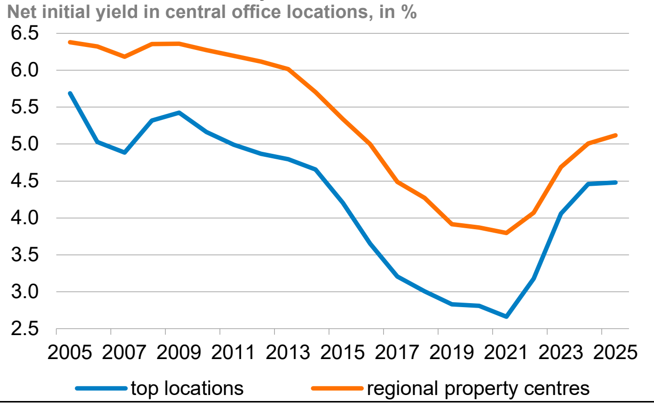
Retail: Trend in initial rental yield
Net initial yield in central retail locations, in %



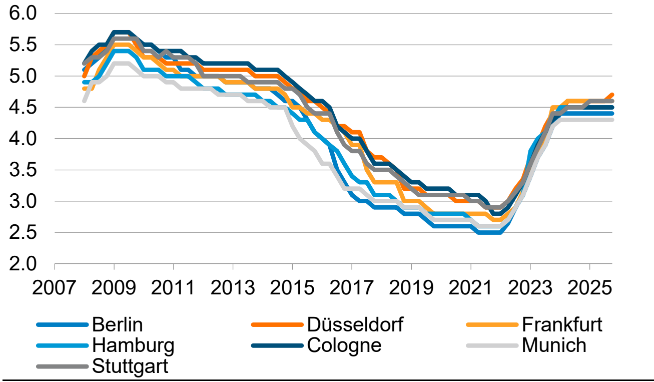
Retail: Yield trend individual top locations
Net initial yield in central retail locations, in %



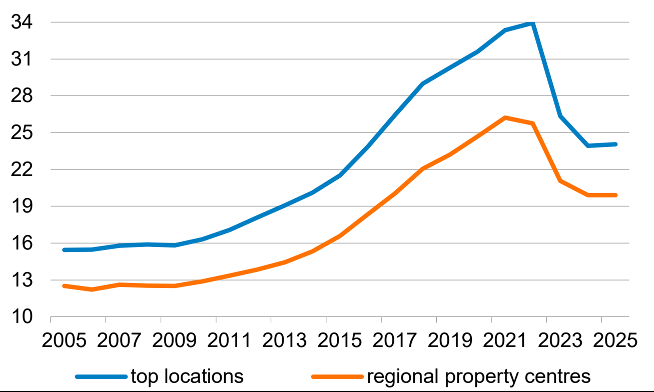
Office: Trend in initial rental yield
Net initial yield in central office locations, in %



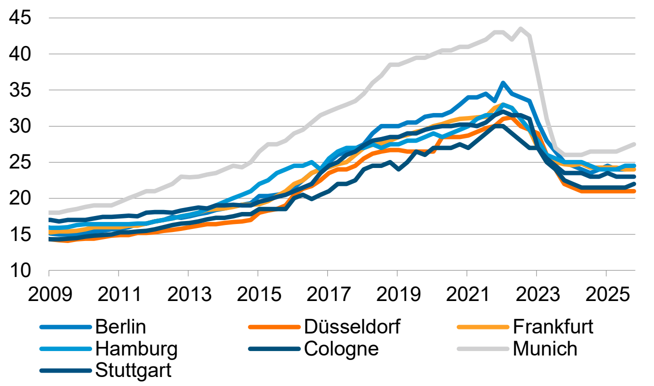
Office: Yield trend individual top locations
Net initial yield in central office locations, in %



Residential: Rent multiplier for multi-family homes
Average multiplier



Rent multiplier individual top locations
Average rent multiplier



Source: bulwiengesa
Explanation: the net initial yield for office/retail is calculated from the annual net rent and the total purchase price taking account of additional costs. For the multi-family home multiplier, the purchase price is divided by the cold rent in the first year and thus corresponds to the reciprocal value of the gross initial yield.
Top 7: Index of the top locations Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart
Regional 12: Index of the regional centers Augsburg, Bremen, Darmstadt, Dresden, Essen, Hannover, Karlsruhe, Leipzig, Mainz, Mannheim, Münster und Nuremberg

RETAIL

City center retail hampered by consumer restraint and online shopping

Alternatives needed, since city center retail is contracting

City centers, with their diverse product offer and large retail space, continue to play an important role for the retail sector. However, sales growth has not resumed since the pandemic. This is partly due to the shift in consumer behavior as a result of e-commerce. Sales are also being hit as consumers tighten their belts in response to an inflation-driven loss of purchasing power and the negative impact on the labor market of the economic downturn. Although reduced demand for sales space carries the risk of properties remaining vacant for a prolonged period, it also creates scope for alternative uses such as offices, hotels, restaurants, leisure and housing. This creates potential for city centers to become more diverse and attractive in contrast to the previously widespread monoculture of retail and chain stores.

Structural change an opportunity and a challenge

However, structural change is challenging. Vacant properties include small local shops as well as outmoded shopping malls and large department stores. New utilization concepts must be developed, for example “mixed use quarters”, which need to be economically viable despite increased building and financing costs. Before a site can be repurposed, buildings must often be completely renovated or demolished, and the potentially negative impact of construction sites on the local retail sector may last for several years. One potential obstacle is that the often overstretched budgets of local authorities may curb the potential for them to invest in their city center.

Intense competition for city center retail: Plenty of shopping alternatives

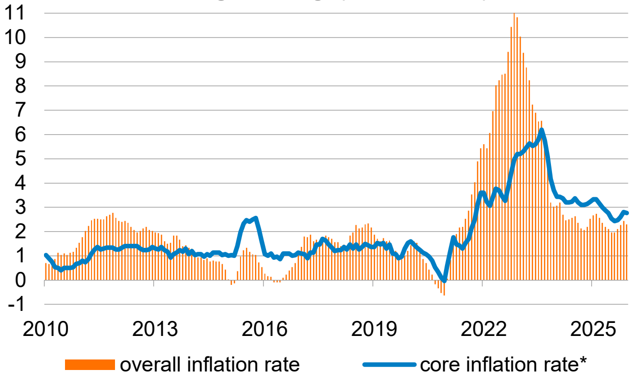
However, security and cleanliness are also essential elements of the city center quality of stay as well as the range of retail and restaurants on offer. If the quality of stay falls short, customers will stay away. There are more than enough alternatives to city center shopping, including e-commerce and specialist stores, and shopping and outlet centers on the periphery of cities.

Market conditions for retail

Lower inflation and high propensity to save are positive

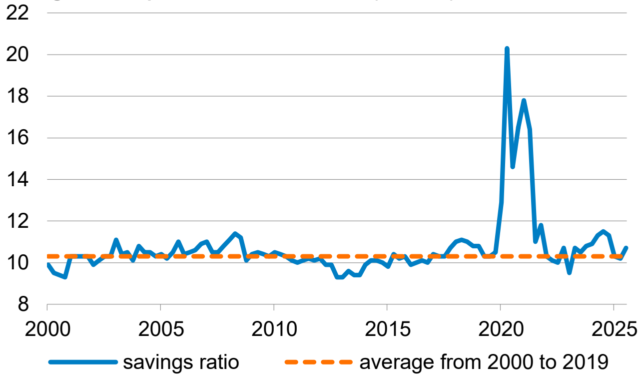
One positive development in a gloomy economic environment is the downward trend in inflation towards the ECB’s target of 2 per cent – a sign that the general upward price momentum which has dented purchasing power has been overcome. However, higher food prices are hitting households harder. The increased propensity of private households to save has now moved back within range of the normal, pre-pandemic

Inflation close to ECB’s 2 per cent target, core rate remains raised
Inflation rate, in %, rolling 3M average (December 2025)



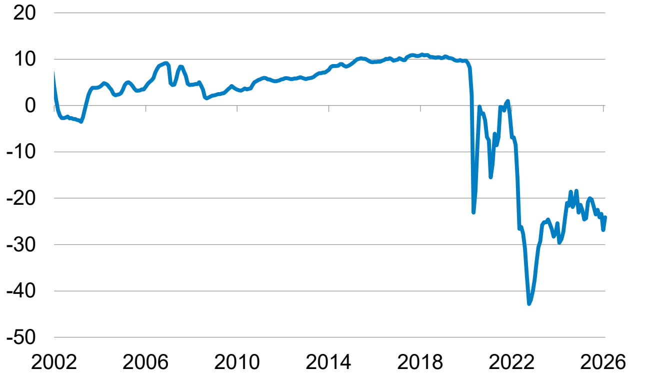
Source: Destatis
*) excl. energy and food

Savings ratio slightly raised compared to long-term average
Savings ratio of private households, in % (Q3/2025)



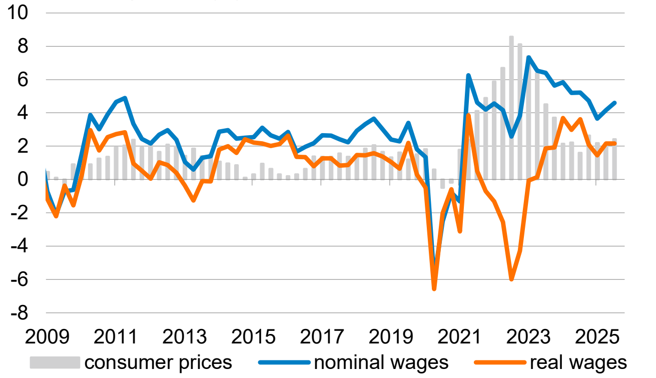
Source: Destatis

Economic slowdown and job concerns weigh on consumer climate
Consumer climate, in points (February 2026)



Source: GfK

Real and nominal income growth slows
Prices and wages, in % yoy (Q3/2025)



Source: Destatis

long-term average. However, neither moderate inflation nor a lower propensity to save can benefit retail. This is reflected in continuing negative consumer sentiment.

Consumer climate remains gloomy

Although the GfK consumer climate survey has moved away from the low readings recorded during the pandemic, it remains well below previous levels and has declined recently. Although the acceleration in income growth has now weakened, the trend in real wages remains positive and this is not helping the consumer climate either. Another negative factor for retail demand is the unwillingness of households to cut back on spending on holidays, going out and leisure activities.

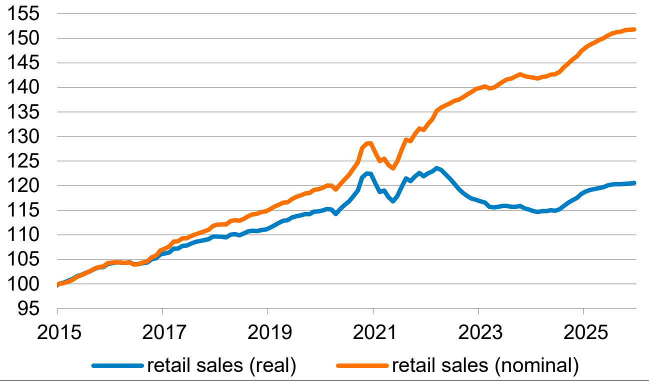
Retail sales growth based mainly on price increases

At first glance, the trend in retail sales looks positive. A one-off factor also came into play in 2025. As a result of the restructuring of a large internet retailer – presumably Amazon – sales which were not previously recorded in Germany are now being booked here. However, overall growth is based mainly on price increases. Adjusted for inflation, sales have been largely stagnating since 2022. The situation is even worse for the retail categories of fashion, footwear and textiles which are important to city centers, which have clearly shown below-average growth.

Retail is an important economic factor

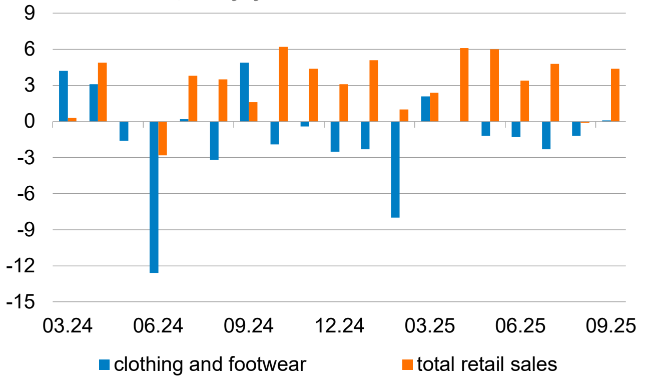
Despite the gloomy trend, retail remains an important economic factor in Germany; based on an estimate from the German Retail Federation (HDE), sales exceeded EUR 680bn in 2025. Of this, around EUR 92bn, or a good 14 per cent, relates to online retail. However, e-commerce is no longer achieving the high growth rates of

Retail stagnating since 2022, sales growth largely based on price rises
Retail sales, 2015 = 100 (December 2025)



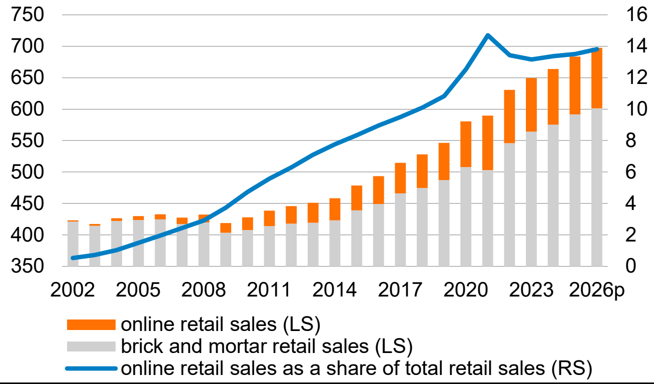
Source: Destatis

Fashion sales clearly underperforming retail sector as a whole
Nominal retail sales, in % yoy



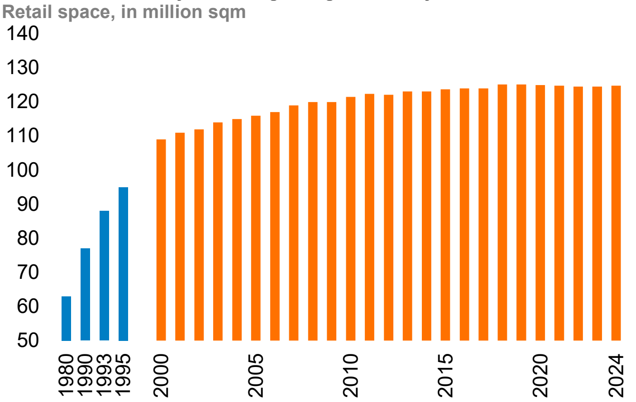
Source: KPMG (Destatis database)

Growth in online retail weakens, resulting in slow market share growth
LS: Sales in EUR bn, RS: Share in %



Source: HDE

Despite sales shift towards e-commerce, sales space grew for a long time, but has already been stagnating for some years
Retail space, in million sqm



Source: HDE

previous years: With online sales of electronics, fashion, office and leisure products already accounting for a proportion of more than 40 per cent, it will be virtually impossible to achieve even higher growth rates. Conversely, for groceries – which account for about a third of total retail sales - the proportion purchased online is very low at around 3 per cent. However, online retail faces tough competition here from dense networks of low-cost supermarkets and discounters.

Online competition from China and cost squeeze as wages rise

New competition from cheap Chinese retailers

Booming low-cost traders from China such as Temu and Shein are also making life more difficult for retailers. When budgets are tight these discounters benefit with their low prices and they mainly target younger consumers on social media. Shein is now one of the ten largest German online shops. Its success is not dented by a lack of consumer protection and low product quality. Cheap online retailers are benefiting as many private households tighten their belts.

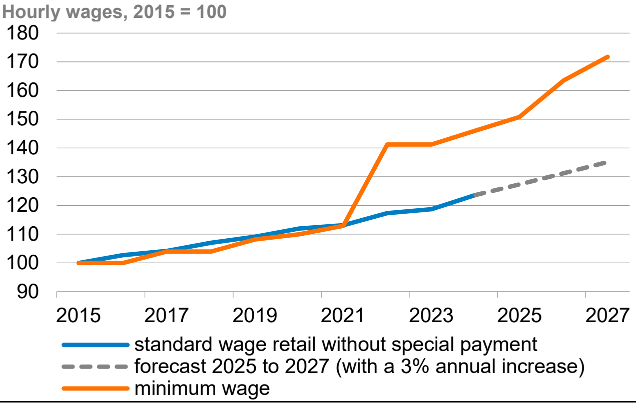
Consumer restraint compounded by rising costs as the minimum wage rises

In the HDE economic survey for spring 2026, which measures the top issues for the retail sector, 81 per cent of respondents cited consumer restraint as a more important factor than bureaucracy. This is line with the expectations of nearly half of retailers that their 2026 sales will be lower than last year. The retail sector is also facing further pressure as costs continue to rise. The forthcoming increase in the minimum wage paid to many retail employees will compound the problem further.

Many retailers are concerned – the dominant theme is consumer restraint
Figures in % (multiple responses are possible)

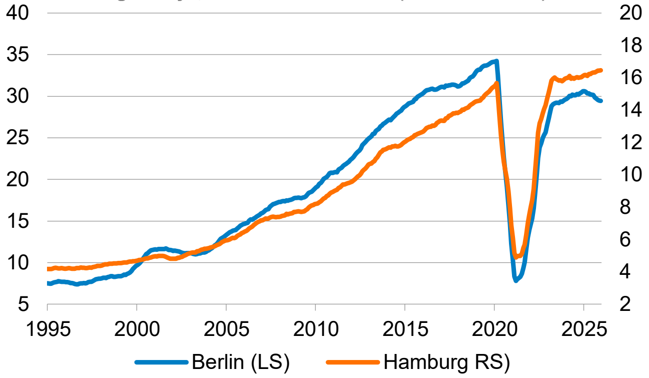
Source: HDE Economic Survey spring 2026

Sharp rise in minimum wage in 2026 and 2027 means another cost surge for retailers
Hourly wages, 2015 = 100



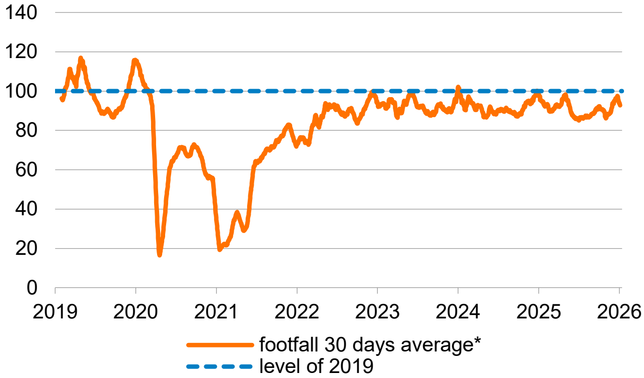
Source: Destatis

City tourism very important for city center retail, but pre-pandemic growth has not resumed
No. of overnight stays, annualised in million (December 2025)



Source: Destatis

Footfall in shopping streets recovers from the pandemic, but not quite back at its 2019 level
Index for footfall, 2019 = 100 (January 2026)



Source: Hystreet/Destatis *) Average of 21 shopping streets

The figure is expected to rise to EUR 14.60 per hour by 2027 – an increase of more than 50 per cent compared to 2021.

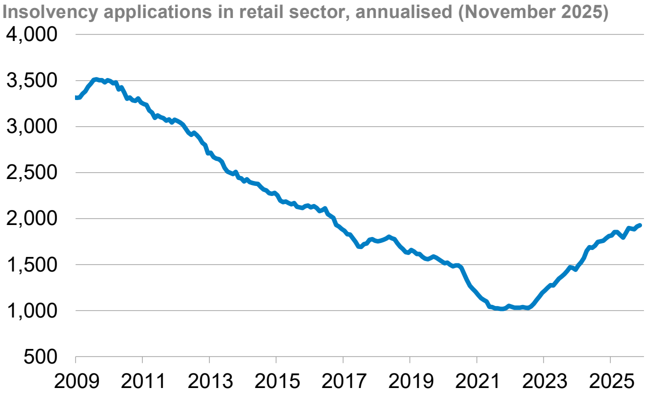
Tourism and footfall have recovered

The situation in city centers would be even more difficult if visitor numbers and footfall had not largely recovered from the pandemic. This is particularly true of city tourism, which makes a significant sales contribution to city center retail. However, the growth in visitor numbers evident before the pandemic has not resumed. Footfall in shopping streets is also slightly below the 2019 level. However, a shopping trip remains one of the most popular leisure activities.

Insolvencies and branch closures: No. of shops down by nearly a fifth since 2015

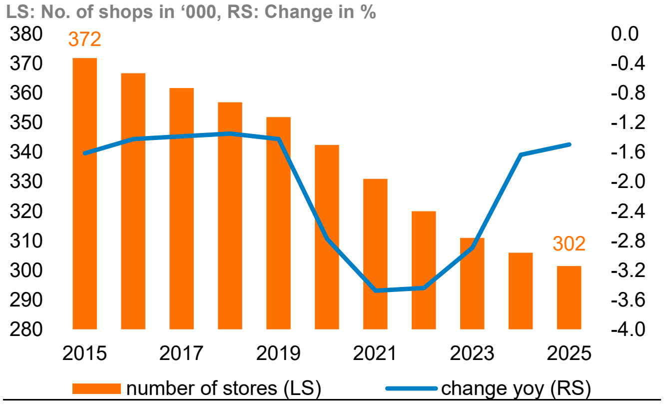
As a result of weak fashion, footwear, furniture and fittings business, some chain stores have recently filed for bankruptcy. These include familiar names such as Closed, Depot, Esprit, Galeria, Gerry Weber, Palmers, Scotch&Soda, Sinn and Sør. Branch closures are often involved. The number of insolvencies increased again overall in 2025. Some retailers are also thinning out their branch networks to achieve better profitability. The decline in the number of shops could therefore continue. According to the HDE, the number of shops has fallen by nearly 20 per cent since 2015 to just over 300,000.

Number of retail insolvencies still increasing
Insolvency applications in retail sector, annualised (November 2025)



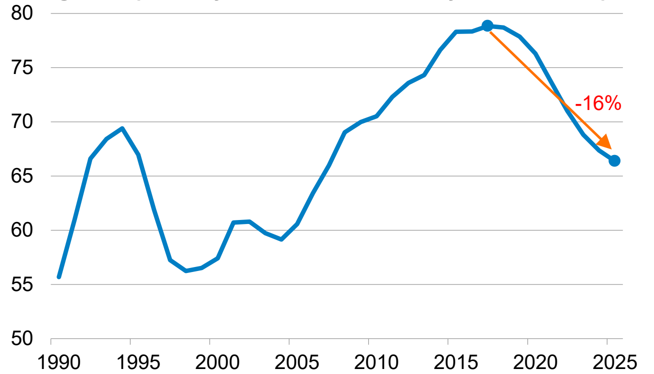
Source: Destatis

Number of shops has fallen by a fifth within ten years
LS: No. of shops in '000, RS: Change in %



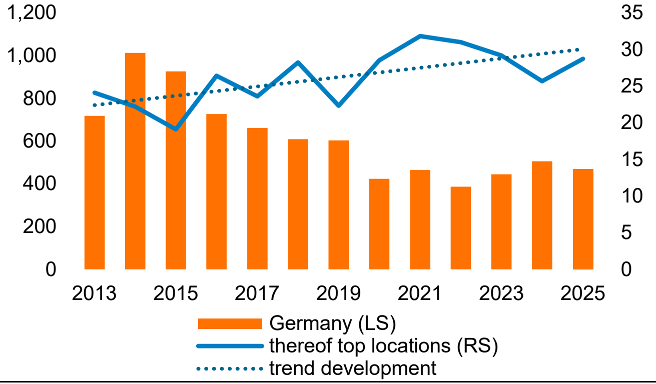
Source: HDE

Retail rents have fallen sharply in German city centers
Average rents prime city center locations Germany-wide, in EUR/sqm



Source: bulwiengesa

Top locations account for a growing proportion of rented shop space
LS: Take-up city center locations in '000 sqm, RS: Share in %



Source: BNP Paribas Real Estate, DZ BANK

Attractive city center locations still in demand

City centers still attract interest as reflected by retail expansion

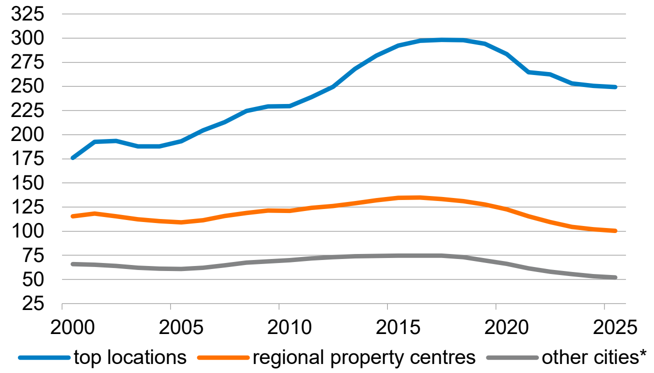
However, not all retailers are trimming their branch networks. Many are expanding, and others plan to extend the branch networks they had previously scaled down again. Thanks to a positive supply of space in city centers and lower rents, the preconditions are good. Examples are the furniture giant Ikea, the sports discounter Decathlon, electronics retailers MediaMarkt Saturn and Coolblue, the Douglas perfumery chain, the US fashion chains Guess and rag & bone, the Spanish fashion chain Stradivarius, the German footwear retailer Deichmann and the Japanese fashion chain Uniqlo.

Fashion still the most important segment in the city center

Proportion of rental revenue from top locations increases again

Below the line, let space in city centers will be on a par with the previous year in 2025 at around half a million sqm. Although this is only half of the record level of 2014, an upward trend is evident. Despite the headwind for fashion retail, according to figures from JLL this segment tops the league for the first half of 2025, accounting for around 30 per cent of let space. Next in line is the food/restaurant segment at 22 per cent, underscoring its increased importance in city centers. Sport/outdoor comes third at 12 per cent, ahead of health and beauty at 9 per cent, and homes/interiors at 5 per cent. The retail sector's focus on attractive city centers is reflected in the gradual increase in the proportion in the top locations to around 30 per cent.

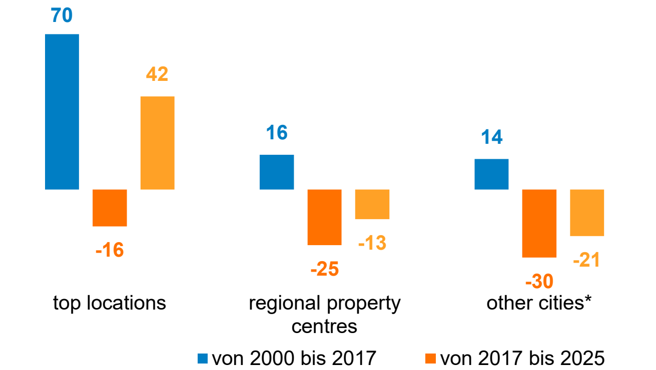
Retail disaster: Prime rents currently only higher than at the millennium in the top locations
Prime retail rents, in EUR/sqm



Source: bulwiengesa

*) C and D cities

Top locations: Above-average rent growth as locations attract retailers
Prime retail rents, change in %



Source: bulwiengesa

*) C and D cities

Retail: Comparison of top locations

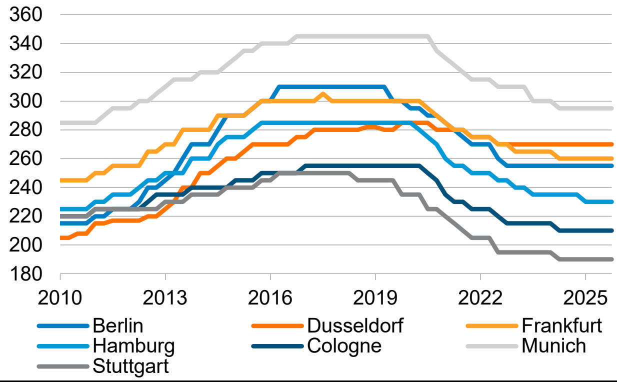
Top locations absorb negative retail factors fairly well

The top locations reviewed in this market report are proving comparatively resilient to the ongoing retail crisis. This is also borne out by their relatively large proportion of space lettings in city centers. However, retail rents have shown particularly strong growth in the top locations. While prime rents in many other cities have slipped below their levels at the millennium as a result of the negative factors afflicting city center retail, in each of the seven largest German cities they are significantly higher. Despite their essentially stronger growth, they have weakened less since 2017. All the cities are equally affected by e-commerce, the pandemic, inflation and weak consumption.

Prime rents have also fallen sharply in the top locations – apart from Düsseldorf

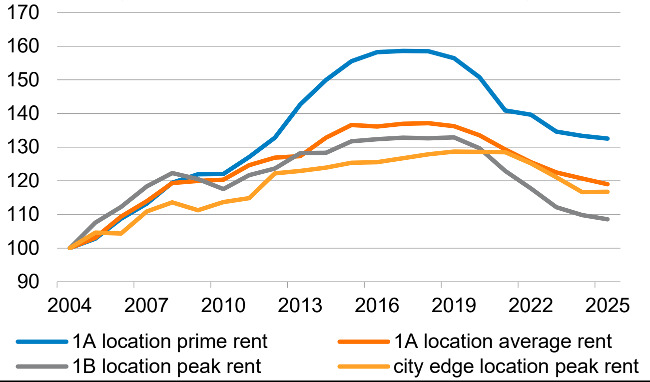
However, there are also clear differences between rent trends in the seven top locations. In 2025, prime rents per sqm ranged from EUR 190 in Stuttgart to EUR 295 in Munich. The average was almost exactly between the two at EUR 249. By 2025, Stuttgart, which has the lowest rents, recorded the steepest relative decline of around a quarter from peak levels. Prime rents in Munich only fell by a good 15 per cent from a significantly higher level. Düsseldorf showed the lowest relative decline in rents of only about 5 per cent. The city on the Rhine, which recorded the lowest prime rent among the top locations in 2010, is thus the second most expensive German retail location today.

After a steep decline, prime retail rents are now stagnating
Prime retail rents in EUR/sqm



Source: bulwiengesa

City centers outperform other city locations
Retail rents by location, Index 2004 = 100 (top locations only)



Source: bulwiengesa

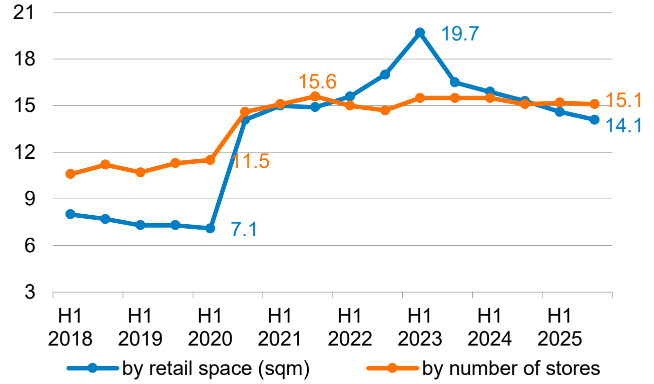
Top locations offer the best conditions for retail

The relative strength of the seven largest cities as retail locations is based on various factors. These include large catchment areas of several million people, strong demographic growth, above-average purchasing power – with the exception of Berlin – and a large volume of visitors from within Germany and abroad. However, from a retailer's perspective, other aspects also support the top locations. As a result of market size and internationality they are well suited to test new concepts and act as a "gateway" for suppliers who have not previously had an in-store retail presence in Germany. The risk of the desertification of the city center is considerably lower in smaller cities. The cities below the level of the top locations are also more interchangeable from a retail perspective.

Space availability down slightly, but still fairly high

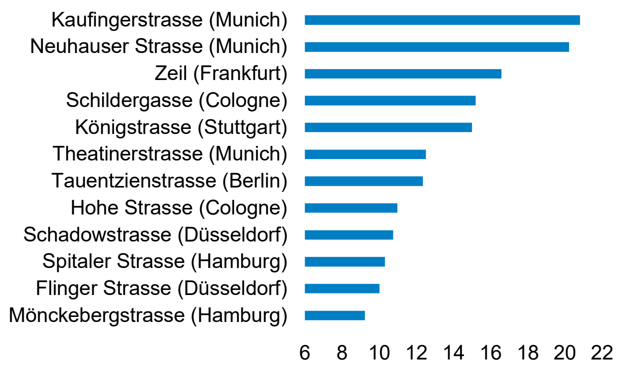
Given the many branch closures, there is a good supply of space for potential tenants. This is reflected in the space availability ratio measured in square meters and calculated by JLL which was roughly twice as high at the end of 2025 as at the beginning of 2020. One positive factor is that the volume of vacant retail space has declined from its peak of nearly 20 per cent at the beginning of 2023 to around 14

Continuing good availability of city center shop space
Space availability ratio*, in %



Source: JLL *) for the "Big 9", top locations plus Hannover and Leipzig

Shopping streets in top locations benefit from high footfall
Cumulative footfall from Q1 to Q3 2025, in million



Source: BNP Paribas RE

per cent currently. The highest volume of available space among the top locations – measured in square meters – was 23.5 per cent in Frankfurt at the end of 2025.The lowest volume of available space is around 7 per cent in Düsseldorf and Hamburg. The figure is slightly higher in Munich at 8%.

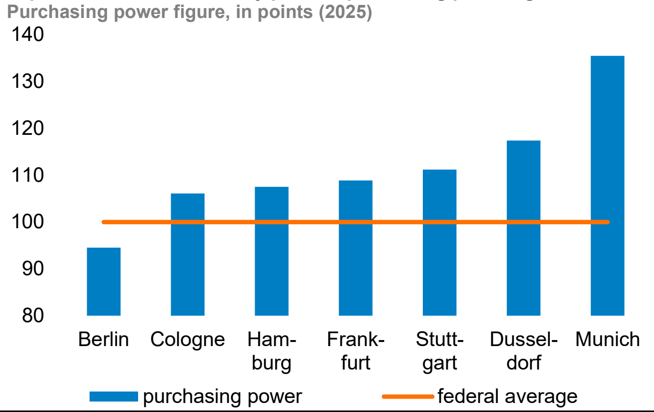
Top locations report extremely high footfall

The city centers of the top locations report extremely high footfall. Although these figures have become less meaningful because many visitors merely window shop without generating any sales, city centers full of people are better than empty pedestrian zones.

High purchasing power and strong tourism business

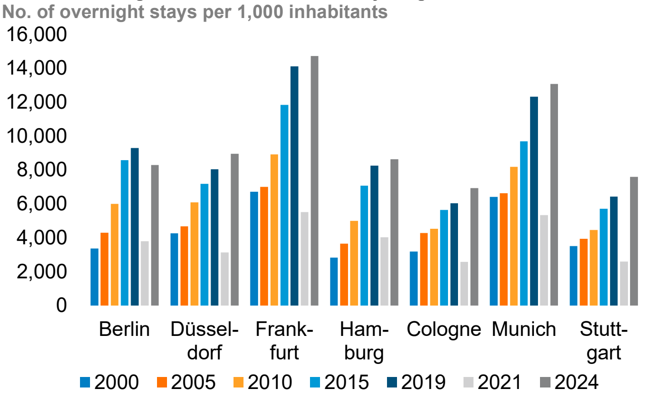
High purchasing power in the top locations - in most cases well above-average for Germany - is also positive for the retail sector. The only exception is Berlin with a figure of 100 points. Generally high regional purchasing power is enhanced by large visitor volumes. Berlin is the frontrunner here with more than 30 million overnight stays per year. In terms of the number of overnight stays relative to the population, Frankfurt is in the lead with more than 15,000 overnight stays per 1,000 inhabitants. However, strong growth in tourism has not resumed post-pandemic, and the additional boost for purchasing power is therefore weakening.

Top locations achieve mainly positive purchasing power figures
Purchasing power figure, in points (2025)



Source: bulwiengesa

Tourism at a high level, but shows virtually no growth
No. of overnight stays per 1,000 inhabitants



Source: bulwiengesa, Destatis

Retail conclusion: Continuing headwind for retail sector

City center retailers' hopes of better business have been dashed

Despite losing sales to e-commerce, the High Street, with its prime locations, continues to play a key role for the retail sector. However, prospects remain subdued given the weak economy and the strong headwind for industry and the labor market. Households are also tightening their belts as a result of demographically-driven increased spending on pensions, health and care, as well as higher housing costs. People are reluctant to cut back on spending on leisure and holidays, and can make only limited savings on food and medication. City center retail, with its product ranges focused on fashion, footwear, beauty, home interiors and electronics, is not only the "discretionary element" of private consumption, where well stocked cupboards often make it easier to scale back purchases. Intensive competition from e-commerce is also a factor here. Competition continues to grow, with cheap Chinese retailers offering a rapidly growing alternative, mainly targeted at price-conscious customers.

High fluctuation: Visible shift in offer in city centers and shopping centers

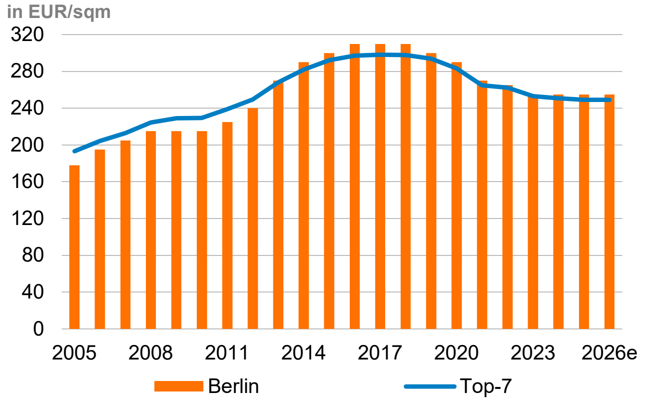
With city center retail sales stagnating or declining slightly, retailers can opt to withdraw or expand. The generous supply of sales space is beneficial for new businesses. One example is Decathlon: The sports discounter uses large city center outlets in empty department stores to gain a foothold. Thanks to counter movements like these, rent levels seem to be stabilizing after declining for several years. The repurposing of obsolete sales space which has already been evident for a long time is likely to continue. Shopping centers are also changing course and increasing the proportion of "experiential" offer. However, with a more diverse offer replacing the long dominant chain store monotony, cities will also become more attractive again with long term benefits for the retail sector.

Stable prime rents in top locations thanks to their attractions for retailers

Top locations have the best prospects for city center retail. Retailers from within Germany and abroad focus on a small number of attractive locations, including the seven largest cities in particular. Retail space here will therefore remain fairly easy to let. We therefore expect prime rents in the top locations to remain largely stable this year despite the challenges facing city center retail.

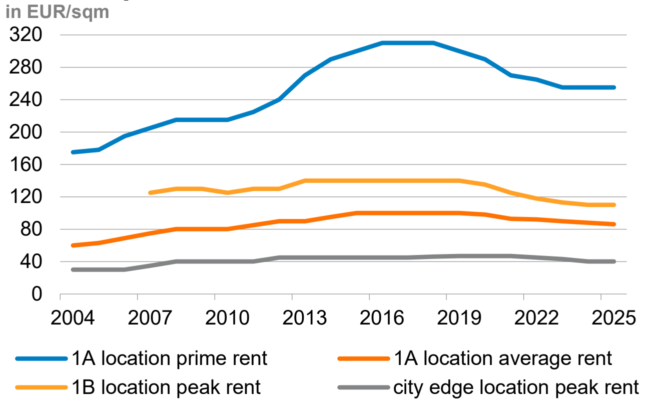
Overview of top locations
Retail space in Berlin

Prime retail rents
in EUR/sqm



Source: bulwiengesa, DZ BANK Research forecast

Retail rents by location
in EUR/sqm

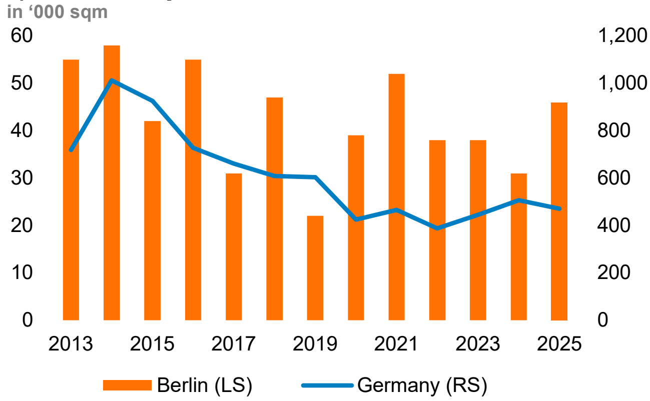


Source: bulwiengesa

Leading shopping location must also reduce supply of retail space

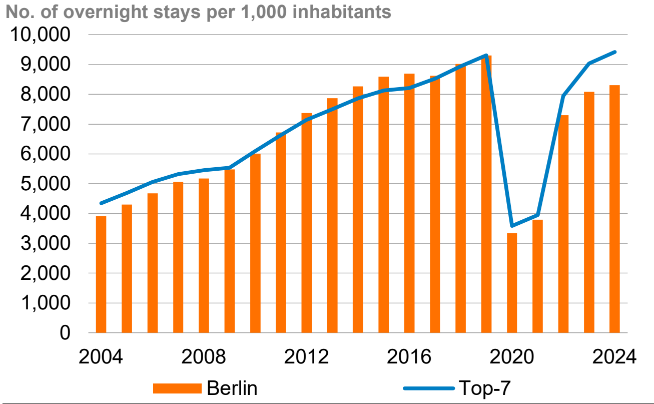
The retail sector has clearly benefited from the upturn in Berlin. Contributory factors are a decline in unemployment, increased customer potential as a result of demographic growth, and flourishing tourism. With more than 30 million overnight stays each year, visitors are important for city center retail given the low regional purchasing power. Thanks to growth in the population of Greater Berlin to more than 5 million people, city center retail has the largest catchment area among the German cities. Apart from its size, the Berlin retail sector can boast of several geographically distinct prime locations. These include Tauentzienstraße, which has the highest prime rents, Ku'damm, Alexanderplatz with its high footfall, Friedrichstraße, and the on-trend Hackescher Markt. Added to this are around 40 shopping centers, the most prominent of which is the large Mall of Berlin. The continuing high level of interest from retailers in Berlin is reflected in buoyant rental activity. However, the increased availability of sales space and numerous shopping locations are leading to strong competition. One aspect of the consolidation process was the closure in 2024 of the French luxury store Galeries Lafayette which opened in 1996. A number of shopping centers and former department stores are also being repurposed. Prime rents have fallen by around 18 per cent from their peak levels to EUR 255 per sqm. Rents have remained stable since the end of 2022. At the "2nd Center Summit" held in mid-2025, the Senate presented a 10-point plan in support of Berlin's shopping locations.

Space rental in city center locations
in '000 sqm



Source: BNP Paribas Real Estate

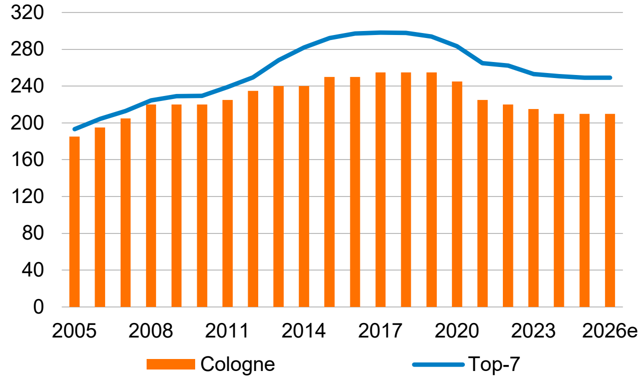
Trend in tourism
No. of overnight stays per 1,000 inhabitants



Source: bulwiengesa, Destatis

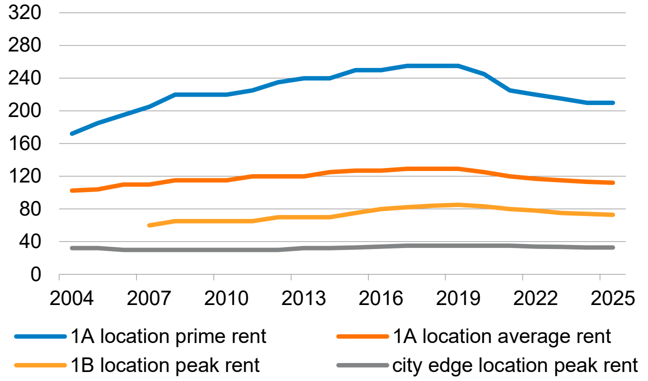
Retail space in Cologne

Prime retail rents
in EUR/sqm



Source: bulwiengesa, DZ BANK Research forecast

Retail rents by location
in EUR/sqm

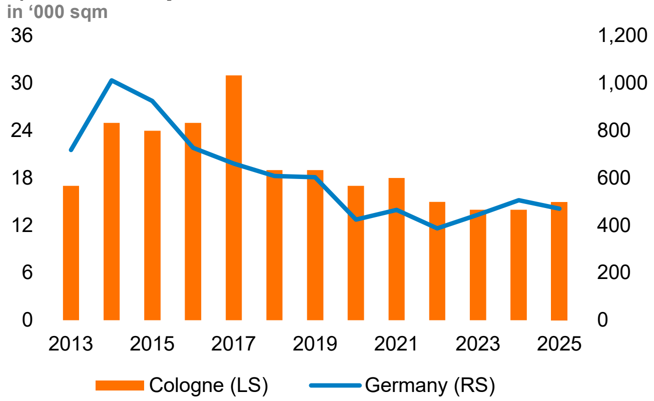


Source: bulwiengesa

High footfall makes Cologne city center attractive for retailers

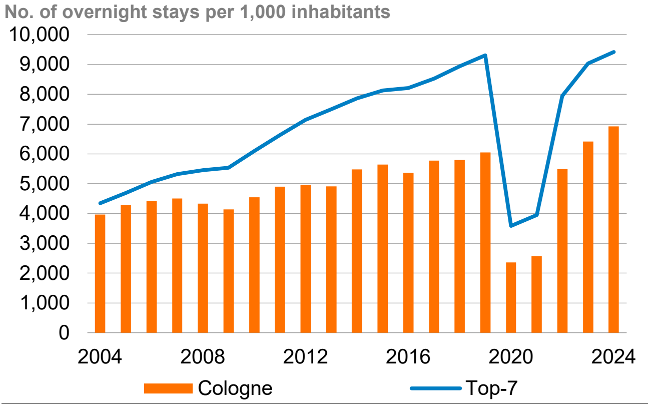
Cologne, with its population of one million, is the second top location in North Rhine-Westphalia along with Düsseldorf. A large catchment area and a high volume of day-trippers from the Benelux countries are attractive for retailers. However, in contrast to Düsseldorf's strong focus on the luxury segment, Cologne city center is oriented more to mainstream retail. Although not particularly attractive, it offers retailers a three-kilometer shopping route with high footfall. First and foremost is Schildergasse, where many chain store branches are situated. This location is being enhanced with the expansion of the P&C Weltstadthaus into the neighbouring site. A mixed-use concept and a roof terrace with a view of the cathedral are planned. The former Karstadt Sport building is also being renovated before Douglas opens a flagship store here. Hohe Straße also has high footfall. However, the quality of stay in the narrow street is low, and the small format post-war buildings are unattractive for fashion chains. Renovation will improve the prospects of the tenant structure away from low-cost fashion retailers and snack bars. However, the obvious vacant properties are mainly a result of renovation work. Ehrenstraße is a more fashionable location. A smaller luxury segment has become established in the Domkloster/Wallraffplatz area. At the end of 2025, Rimowa became the first shop to open in the exclusive Dom-Carré. The realization of the Laurenz Carrés is no longer at risk, after HanseMerkur acquired the project from the insolvent Gerch Group. Prime rents have fallen by 18 per cent from their peaks to EUR 210 per sqm. This level has been maintained since mid-2024.

Space rental in city center locations
in '000 sqm



Source: BNP Paribas Real Estate

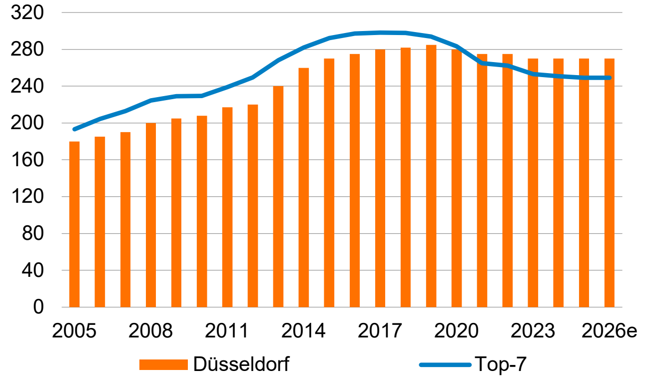
Trend in tourism
No. of overnight stays per 1,000 inhabitants



Source: bulwiengesa, Destatis

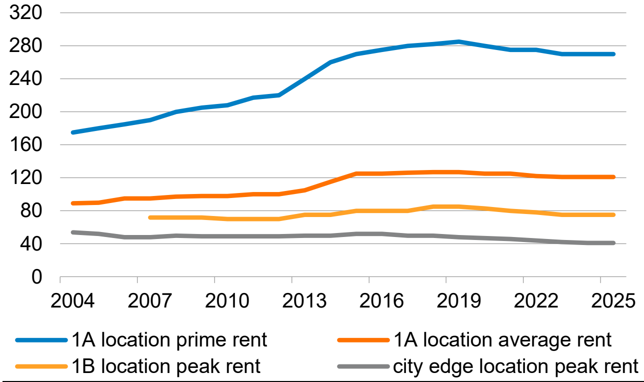
Retail space in Düsseldorf

Prime retail rents
in EUR/sqm



Source: bulwiengesa, DZ BANK Research forecast

Retail rents by location
in EUR/sqm

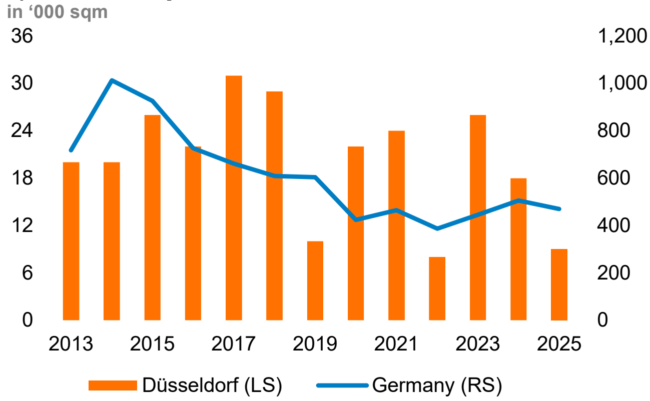


Source: bulwiengesa

Revamped Düsseldorf city center remains crisis-proof

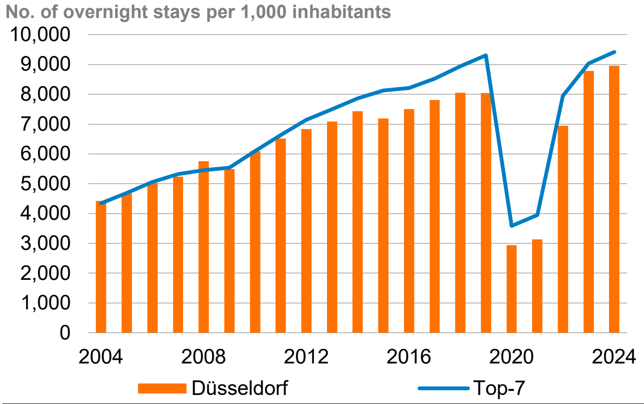
Düsseldorf has developed successfully as a shopping location. The city center has become much more attractive thanks to various urban infrastructure projects and significant investment in new and existing retail properties. Although Düsseldorf has not remained unscathed by the negative factors afflicting the retail sector, their impact on rental business here has been less severe than in other top locations. By 2022, prime rents had declined by only 5 per cent from peak levels and have since remained stable at EUR 270 per sqm. With rents having fallen much more steeply in Berlin, Frankfurt and Hamburg, Düsseldorf is today the second most expensive retail location. Advantages are its large catchment area and purchasing power which is nearly 20 per cent higher than the German average. The city also benefits from its focus on the more stable luxury segment, mainly located in the famous "Kö" shopping boulevard. In addition to the Königsallee, other prime city center locations are Flingerstraße and the transformed Schadowstraße shopping street. In recent years, other iconic retail developments such as the Kö-Bogen and the KII have been added. The main renovation work is currently under way on the Kö. New retail space is being created in the Le Coeur and Trinkaus Karree projects. The Kö Galerie, which dates from the 1980s, is to be gradually modernized. The site of the former Kaufhof Am Wehrhahn is be repurposed as a new opera house. The future of the Carsch store built in 1915 has also been decided. The Thai Central Group, which also operates KaDeWe, has acquired the Benko stake as a co-owner. The renovated luxury store is set to open in 2027.

Space rental in city center locations
in '000 sqm



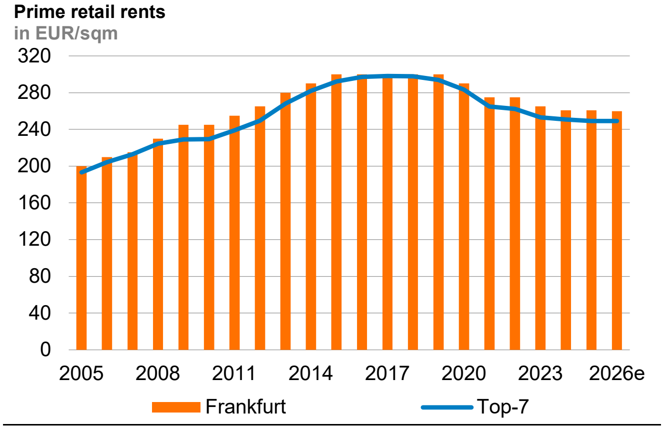
Source: BNP Paribas Real Estate

Trend in tourism
No. of overnight stays per 1,000 inhabitants

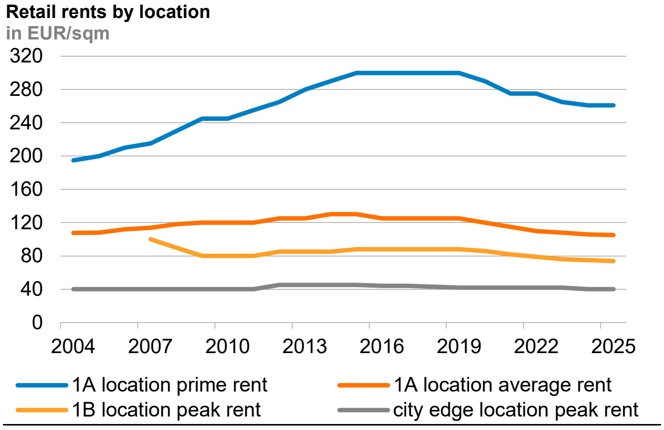


Source: bulwiengesa, Destatis

Retail space in Frankfurt



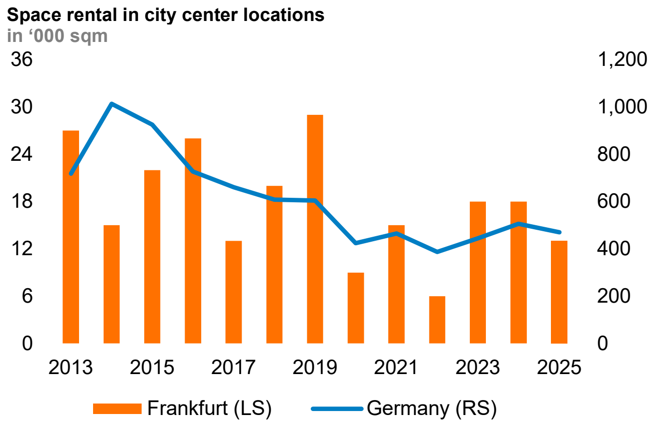
Source: bulwiengesa, DZ BANK Research forecast



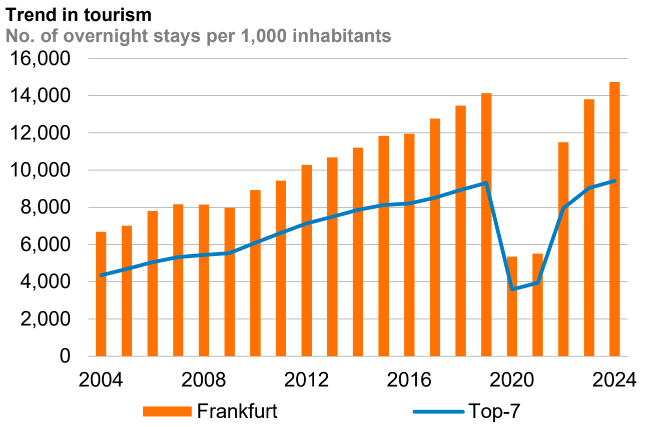
Source: bulwiengesa

Tourism in Frankfurt gains pace, but numerous building sites are having a negative impact on the Zeil

The Frankfurt conurbation and thus retail customer potential has grown dynamically in recent years. High visitor numbers, with nearly 15,000 overnight stays per 1,000 inhabitants, are also positive for retail. With two prime locations – the consumer-oriented Zeil and the luxury shopping street Goethestraße, as well as the MyZeil shopping center, Frankfurt city center has a broad retail offer. However, the stable luxury segment has developed much more successfully than the Zeil shopping street with its many vacant properties. Various new build and renovation projects are likely to have a negative impact here for some time. One example is the conversion of the P&C store into a multi-use building including a primary school. The former Karstadt building is also to be converted into a mixed-use property. A large branch of the Spanish fashion label Bershka is currently located there. The level of interest in available space on the Zeil speaks for its potential. Examples are the flagship store of sneaker retailer Snipes, a branch of Thalia in the former Esprit store, and a large outlet for the Japanese fashion label Uniqlo in the former Götz building. Prime rents have remained stable at EUR 260 per sqm since mid-2024. The twelve-year-old Skyline Plaza located outside the city center between the main station and the trade fair is to be renovated by 2027 at a cost of EUR 35m. As in many city centers, the proportion of fashion is set to contract and will be replaced by experience-oriented providers. TK Maxx and Douglas were signed up as new tenants in 2025.



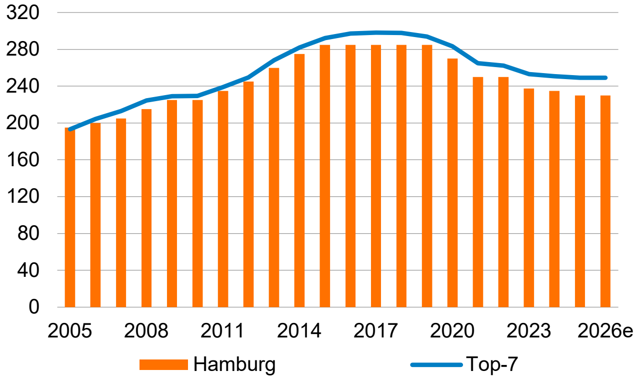
Source: BNP Paribas Real Estate



Source: bulwiengesa, Destatis

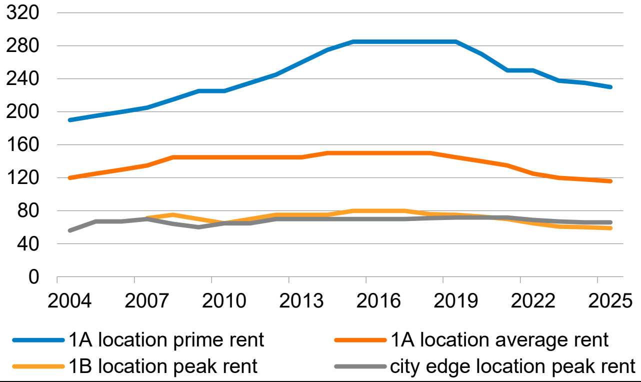
Retail space in Hamburg

Prime retail rents
in EUR/sqm



Source: bulwiengesa, DZ BANK Research forecast

Retail rents by location
in EUR/sqm

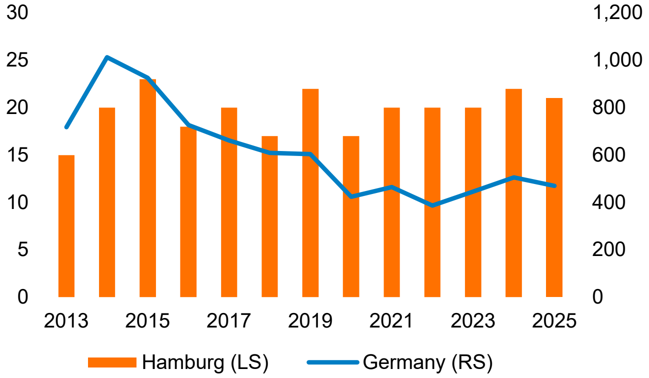


Source: bulwiengesa

Mönckebergstraße shopping street in a state of flux, HafenCity will become a shopping counterweight

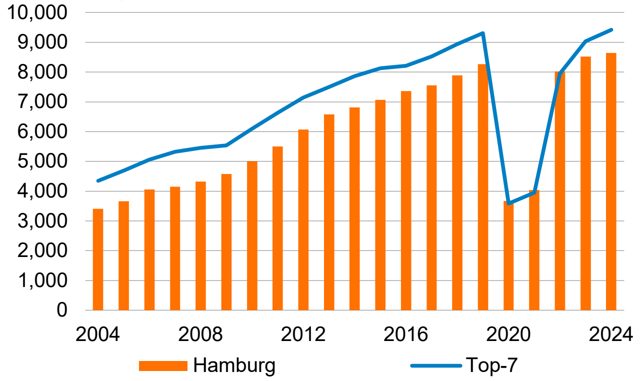
The Hanseatic city benefits from its status as the leading shopping location in northern Germany and has a large catchment area. More than 5 million people live in the metropolitan region of Hamburg. The city also has good purchasing power of 108 points, and city tourists and cruise passengers also play an important role. Attractive features for customers are the broad product offer in classic consumer locations such as Spitalerstraβe and Mönckebergstraβe to the East of the city center, and exclusive locations such as the Neuer Wall and the Jungfernstieg to the West. The Europa Passage – a large city center shopping mall – lies between them. After several delays, spring 2025 saw the opening of the Westfield Center in the Überseequartier – a huge shopping center with around 130 shops and 100,000 sqm of sales space. This accounts for about a quarter of available space in the city center. Fears about a significant loss of customers have obviously not been realized. A prolonged weakening would be bad news for the city center which is already having to contend with vacant properties and store closures. As a result of repurposing for mixed use, sales space is however being scaled back, which is also mitigating the vacancy risk. By 2025, prime rents in Hamburg had fallen to EUR 230 per sqm. The 20 per cent decline was above-average compared to the maximum for the top locations.

Space rental in city center locations
in '000 sqm



Source: BNP Paribas Real Estate

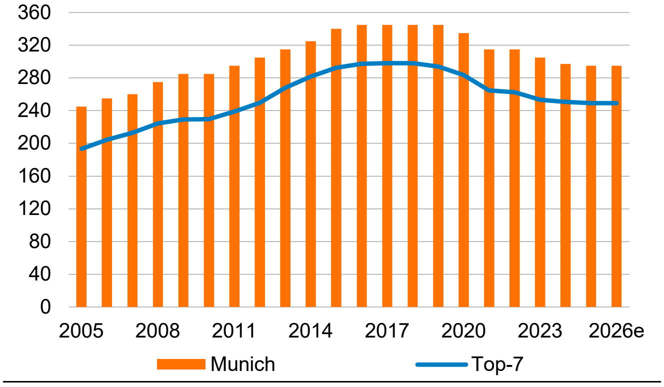
Trend in tourism
No. of overnight stays per 1,000 inhabitants



Source: bulwiengesa, Destatis

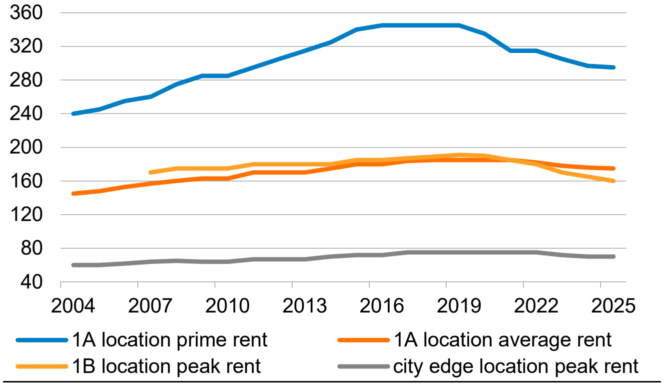
Retail space in Munich

Prime retail rents
in EUR/sqm



Source: bulwiengesa, DZ BANK Research forecast

Retail rents by location
in EUR/sqm

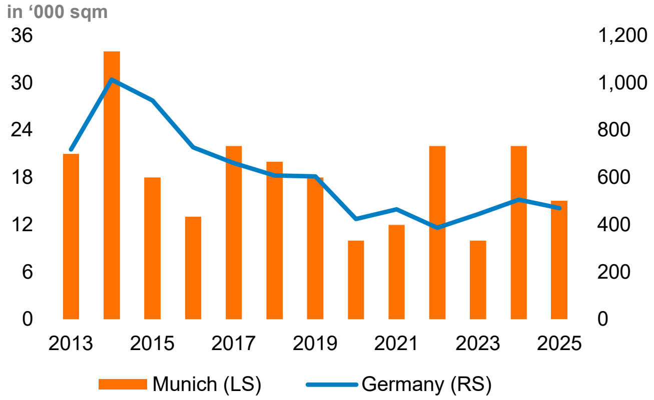


Source: bulwiengesa

Munich city center benefits from extremely high purchasing power and flourishing tourism

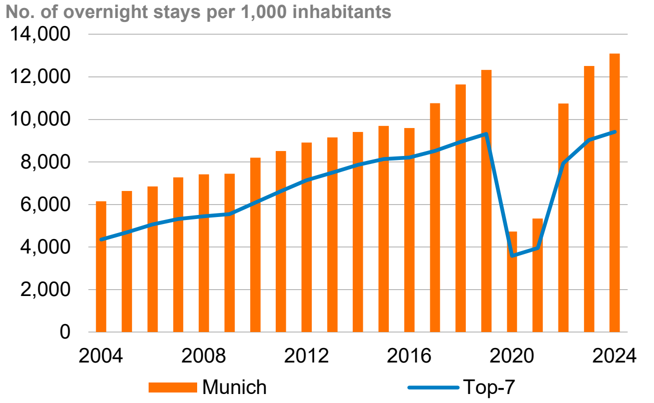
Munich tops the German retail league in terms of prime rents and purchasing power. This is mainly due to a combination of positive factors. These include the economically strong Greater Munich catchment area of more than 3 million people, which continues to grow strongly as a result of ongoing immigration which is boosting customer potential. Another plus point is the high quality of stay in this attractive city center with its Bavarian flavor and extensive range of mainstream retail concepts, traditional specialist shops and luxury stores. Flourishing tourism is boosted by trade fairs and the world-famous Oktoberfest. With 13,000 overnight stays per 1,000 inhabitants, Munich joins Frankfurt at the top of the league for city tourism in Germany. Against this background, prime rents have risen to the highest level in Germany, although the city center has relatively large sales space of more than half a million sqm. The highest rents are in Kaufingerstraße, Neuhauser Straße and Maximilianstraße. Prime rents have fallen by a good 15 per cent from their peak to EUR 295 per sqm. However, levels have remained stable since mid-2024. The retail crisis is also impacting Munich city center, although potential tenants for vacant properties are usually found quickly. Sales space is also shrinking as a result of repurposing, for example the conversion of the upper floors of former department stores into offices. Buyers were found in 2025 for the Signa projects Alte Akademie and the Karstadt complex at the main station.

Space rental in city center locations
in '000 sqm



Source: BNP Paribas Real Estate

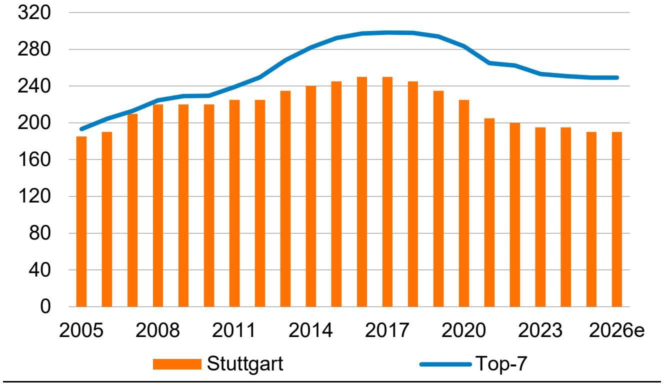
Trend in tourism
No. of overnight stays per 1,000 inhabitants



Source: bulwiengesa, Destatis

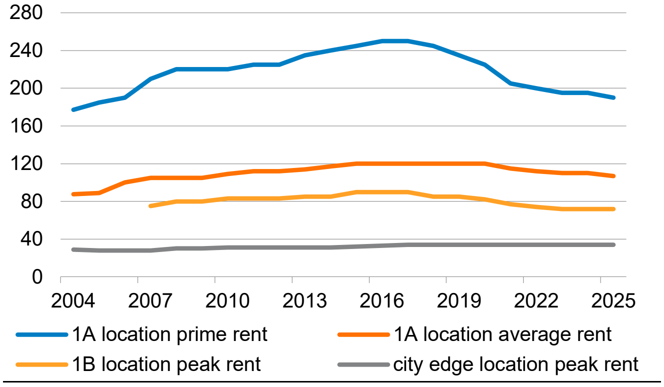
Retail space in Stuttgart

Prime retail rents
in EUR/sqm



Source: bulwiengesa, DZ BANK Research forecast

Retail rents by location
in EUR/sqm

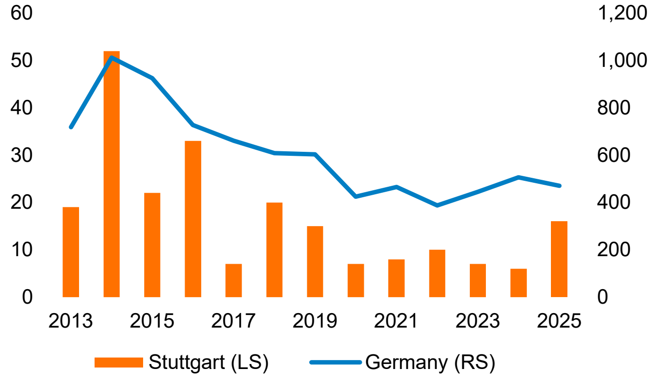


Source: bulwiengesa

Prime rents stabilise after steep decline

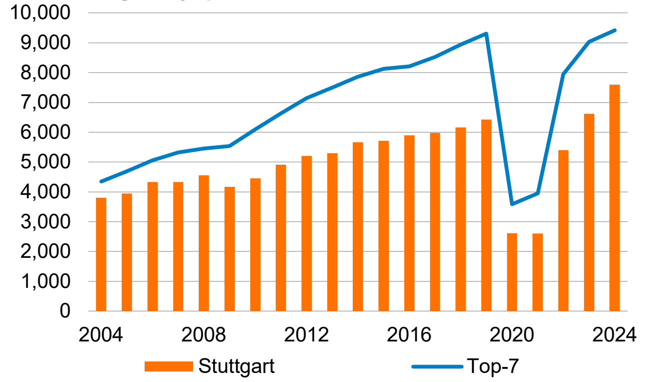
Stuttgart benefits from a large catchment area with high purchasing power, although it has been hit harder by the crisis in German industry. A total of 2.8 million people live in the region. Tourism is less pronounced, with around 7,500 overnight stays per 1,000 inhabitants, but is still relevant. The major expansion of sales space with the advent of two new city center shopping centers more than ten years ago continues to have an impact on the steep decline in prime rents, which are down by a good quarter from their peaks to EUR 190 per sqm in Königstraße. However, major building works are also having an adverse effect on retail. In response to the currently lower demand for sales space, one of the centers, the Gerber, has been repurposed for mixed use with retail, restaurants, offices, apartments and a hotel. The strength of Stuttgart's city center is reflected the in high footfall on Königstraße, largely stable rents since autumn 2022, and retailer interest in shop space. One example is the Decathlon branch in Königstraße which opened at the beginning of 2025. As in other city centers, vacant properties are visible and some are being temporarily repurposed. Construction projects are enhancing the city's prospects. One of these is the "Schlossgartenquartier" building complex opposite the main station at the entrance to Königstraße. The Signa project "Two High Five" on the site of the former sports arena (König-/Schulstraße) has been acquired by the Doblinger Group. An office and commercial building (PATIO) will be created here by the end of 2027/beginning of 2028.

Space rental in city center locations
in '000 sqm



Source: BNP Paribas Real Estate

Trend in tourism
No. of overnight stays per 1,000 inhabitants



Source: bulwiengesa, Destatis

OFFICE

Office demand curbed by remote work and economic slowdown

Offices are very important: One third of employees work here, but space demand is falling

Offices are very important to the world of work. One third of the German labor force works in offices. With the growing importance of white-collar work, the proportion has increased over time. Together with strong employment growth over a long period, office demand has grown, causing vacancies in many office locations to fall to 1 per cent. However, that was in the past, and employment is now stagnating as a result of the economic downturn. Companies are also adjusting their office space in line with the hybrid working world. Fewer workstations are now needed. Storage cupboards are also used less thanks to the digitalization of files. Even an economic recovery may not now provide any impetus for employment and consequently demand for offices. The demographic shift as baby boomers retire is preventing this. Artificial Intelligence could also replace office jobs with now autonomous “Agentic AI” systems.

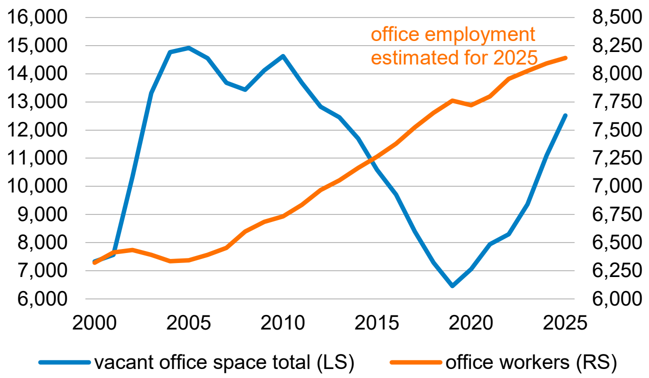
Office space smaller and higher quality, not only due to remote work

Many offices were also often oversized in the past. Desks were often unoccupied when staff were on holiday, on business trips, working part-time or on sick leave. As a result of restructuring, space is now being adapted in line with actual – lower – requirements. Conditions in the office location are also often adjusted in line with the altered needs of the working environment. Space will be high-quality and optimized for hybrid working, sited in easily accessible central locations, and will meet current ESG standards. This will “kill several birds with one stone”. A new office in a “green building” will ensure a high in-office presence, improve communications and working productivity, promote the company’s sustainability targets and provide attractive workplaces as plus points when attracting staff.

Long-term rental contracts and a shortage of modern space: Space adjustment proceeding slowly

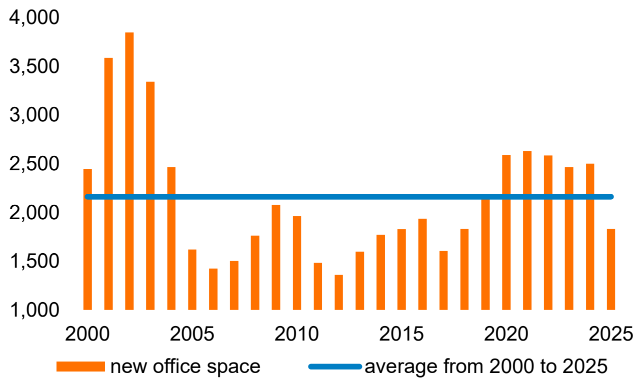
The changes in the office market could be underestimated as a result of the delayed process of adjustment. For example, the growth in the number of vacant properties relates mainly to large office locations, while the trend is stable for smaller office markets. This is due to long-term rental contracts and owner-occupied office buildings with potentially limited utilization by third parties. Added to this is the limited availability of modern office space, making the search for new locations more difficult. Future office needs are also more difficult to gauge given the virtual impossibility of estimating the impact of AI on office employment at the moment.

Remote work leaves a clear mark on the office market: Despite growth in office jobs, vacancy rates have been rising sharply since 2020
LS: Vacant office space* in ‘000 sqm, RS: Office workers* in ‘000



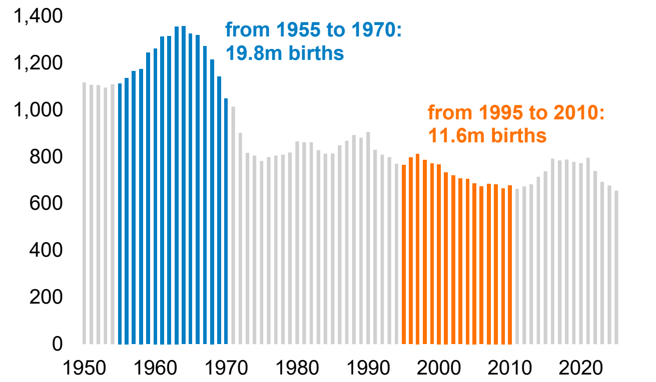
Source: bulwiengesa, DZ BANK *) cumulative across 127 cities

Some growth in vacancies due to accelerated office building from 2019
New office space*, in ‘000 sqm



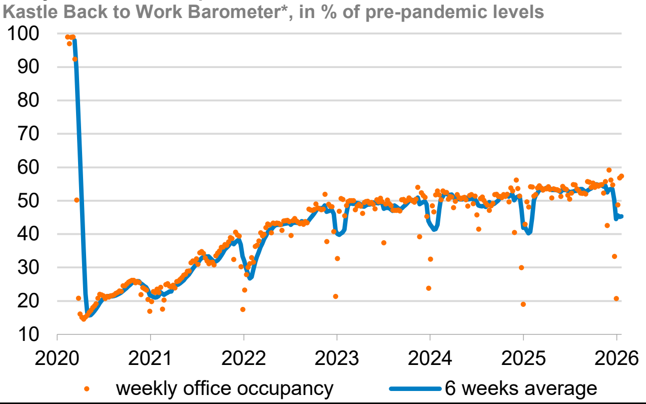
Source: bulwiengesa *) cumulative across 127 cities

Low birth rate years: Birth numbers failed to recover after the pill
Births in '000



Source: Destatis

USA: Office use stabilising at just over 50 per cent: Remote work now firmly established despite "back to the office" calls
Kastle Back to Work Barometer*, in % of pre-pandemic levels



Source: Kastle Systems *) Average for 10 cities

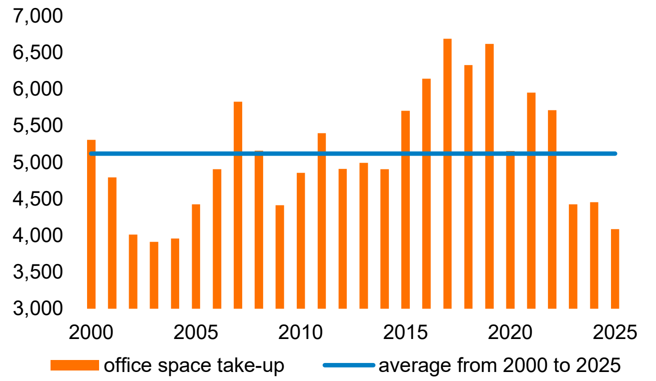
Although many companies have introduced rules for increased in-office presence, there are no signs of a general shift away from mobile working. Employees appreciate the flexibility. In population centers where housing markets are tight, fewer days in the office facilitate longer commutes and make it easier to find an apartment. Below the line, the pattern of high attendance levels from Tuesday to Thursday and moderate levels on Monday and Friday is likely to persist. Demand for office space is also unlikely to increase as employees spend more time in the office because attendance levels will only be higher on Mondays and Fridays. Data from the USA shows that, by 2023, office usage there had increased to around 50 per cent of its pre-pandemic levels, but has since remained virtually static. This speaks for the firm integration of hybrid working models into everyday office life, a trend which is also likely to be adopted in Germany.

Guidelines for more office days do not mark the end of remote work, but create the framework for a balance

Market data clearly reflects lower demand for space as a result of remote work and market activity depressed by the economic downturn. On average, in the 127 real estate locations analyzed by bulwiengesa, between 2000 and 2025 around 5.1 million sqm of office space was let each year. In the two recession years of 2023 and 2024, the figure was visibly lower at 4.4 million sqm, and in 2025 take-up fell even further to a good 4.1 million sqm. Take-up was also supported by relocations due to

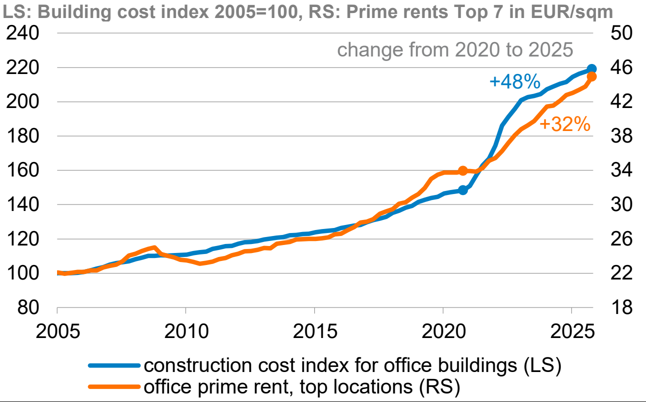
Downturn in office market also increases vacancy rates further

Office market downturn widens: Take-up at a 20-year low in 2025
Take-up, in '000 sqm (cumulative over 127 office locations)



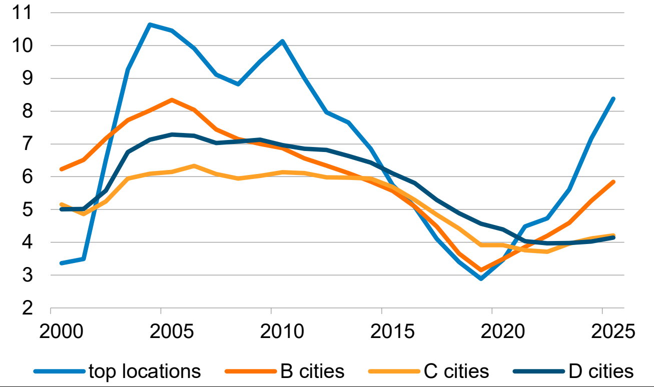
Source: bulwiengesa

Office construction more difficult: Building costs rise even faster than prime rents
LS: Building cost index 2005=100, RS: Prime rents Top 7 in EUR/sqm



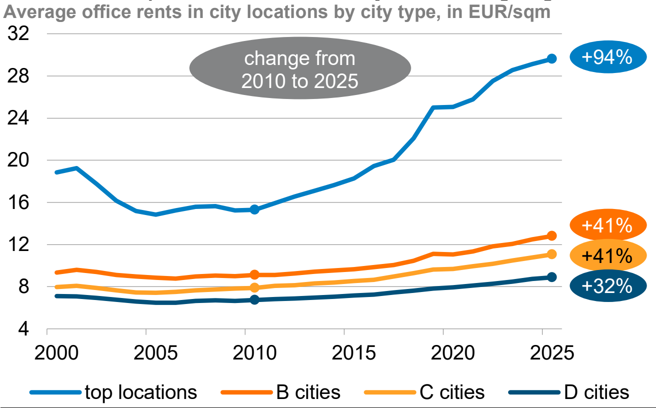
Source: bulwiengesa, Destatis

Increase in vacancies mainly visible so far in large office locations
Vacancy rate, in %



Source: bulwiengesa

Sought-after city center offices: Despite a steep rise in vacancy rates, office rents in top locations have shown by far the strongest growth
Average office rents in city locations by city type, in EUR/sqm



Source: bulwiengesa

necessary renovations. Many office buildings – which are often 50 or more years old – are in need of modernization, and alternative temporary premises are needed for the staff who work there.

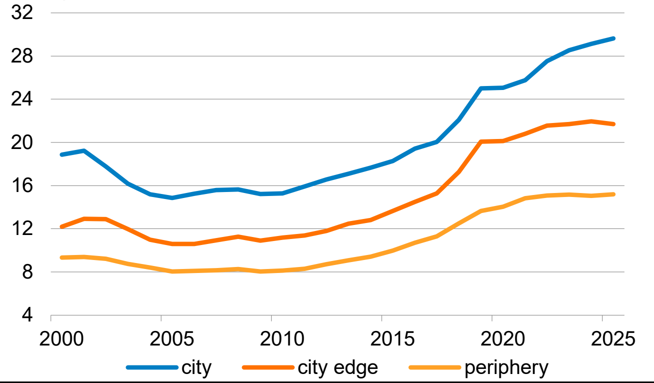
Vacant office space has more than doubled since 2019

Weak demand has accelerated the increase in office vacancy rates caused by remote work; levels have nearly doubled from 6.4 million sqm in 2019 – around 3.4 per cent – to 12.5 million sqm in 2025. However, this is not especially high, but is almost exactly in line with the average in the last 25 years. Between 2019 and 2025, office space expanded by around 10 million sqm to 198 million sqm, although this growth was offset by an increase of nearly 400,000 in the number of office jobs.

Prime rents driven up by demand for modern offices, but also a sharp rise in building costs

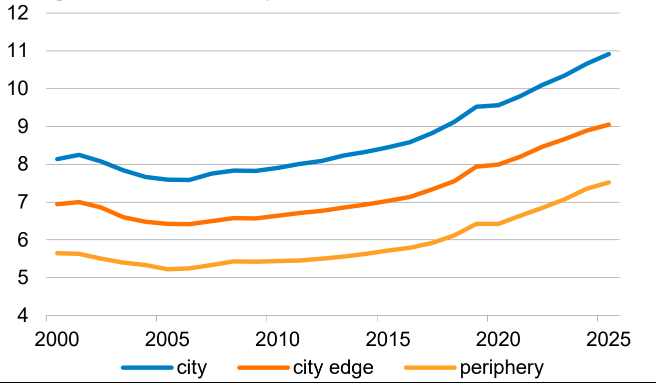
Despite weak office demand and higher vacancy rates, prime rents have risen sharply. This is not a contradiction, since demand for modern space exceeds the scarce supply. Demand for prime office space is mainly driven by service providers based in the top locations, such as banks, accountants, and international lawyers. This explains why rent growth has been highest in the seven largest cities despite above-average vacancy rates. The higher rents are also necessary to realize office projects which have become more expensive due to a sharp hike in building costs. However, even the increase of more than 30 per cent in rents in the top locations within five years is insufficient to keep pace with building costs which have risen by 50 per cent. In the other office locations - the B, C, and D cities - prime rents are increasing more slowly, and office projects are therefore more difficult to realize.

Top locations: Rent trend based on office location
Average office rent, in EUR/sqm



Source: bulwiengesa

Other office locations*: Rent trend based on office location
Average office rent, in EUR/sqm



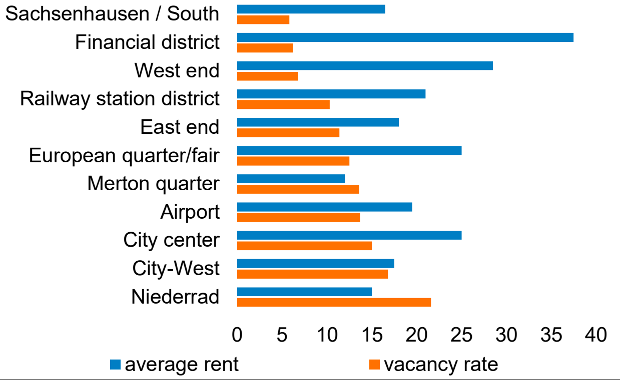
Source: bulwiengesa *) Average of B, C and D cities

It is more difficult to let offices outside the premium segment. More than half of the office stock is pre-1990 and often falls short of current requirements. Growth in the supply of space as a result of a higher vacancy rate is also causing problems for landlords of older buildings. The trend in average rents in the various office locations reflects diverging demand based on location and vacancy rates. Rents have increased further in city centers, but have been stagnating for some time on the edge of central areas and in the periphery. The chart below showing average rents and vacancy rates in Frankfurt illustrates the major differences in rent levels and available office space. It is interesting that marked locational differences between office locations are much less significant outside the Top 7. Average rents in all locations have followed a largely homogeneous trend here. Much lower vacancy rates are also likely to have had an impact.

Outside the premium segment growing supply makes it harder to let offices

Frankfurt: City center with banking and Westend districts stands out with its high rents and low vacancy rates

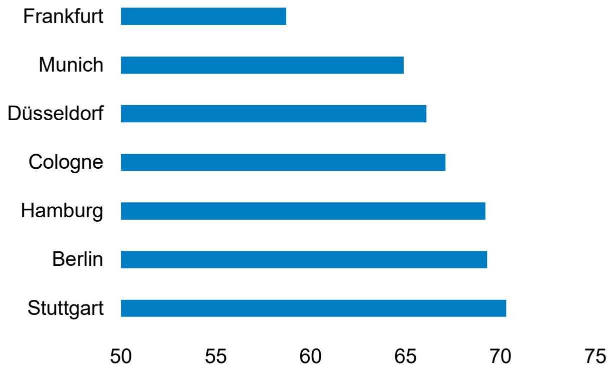
Average rent in EUR/sqm, vacancy rate in %



Source: bulwiengesa

Old buildings only in demand in residential market: Office users want modern space, but availability is limited

Office space built before 2000, proportion in %



Source: bulwiengesa

In addition to weaker office construction, the future conversion of office buildings which are now surplus to requirements could also slow the growth in vacancy rates. Although this often comes at a high cost, the prospects for such projects are better, particularly in locations with higher rents. Possible uses are ordinary apartments, temporary housing, hotels and schools. Another factor which supports conversions is that demolition and new construction have fallen out of favor as a result of climate change.

Housing, schools or hotels: Office buildings can be repurposed fairly easily

Decarbonization as a consequence of climate change plays a very important role for often outdated office buildings. One factor is stricter regulations, as contained in the Building Energy Act (GEG) which will shortly be updated. The tenant search profile also plays a part. Companies are keen to show their employees, customers, investors and creditors an unblemished climate record. Office space in old “carbon emitters” is correspondingly harder to let, and regulatory criteria such as the EU Taxonomy also therefore have an indirect impact here.

Offices with poor sustainability ratings are more difficult to let

The higher “stranded asset” risk of office properties with poor energy efficiency is also closely associated with this. Although renovation improves rental prospects, for the investment to be financially viable it must be reflected in correspondingly higher rents. In areas with high rents, particularly the top locations, the prospects for extensive modernization are therefore more favorable – as they are for conversions.

“Manage to Green” must be economically realizable

Office: Comparison of top locations

Vacancy rates and prime rents increase again, but not quite as strongly as in 2024

The reorientation of office markets in line with the “New Work” concept has led to a steep rise in office rents and a significant increase in vacancy rates; this is particularly evident in the top locations where, on average, 8.4 per cent of office space is now unoccupied. Having increased by 5.5 percentage points since 2019, the vacancy rate has almost tripled. It rose again sharply in all seven locations in 2025, but the rate of increase was slightly lower than in the previous year. The same is true of prime rents, which increased by a substantial 5 per cent in 2025, down slightly on the 7.1 cent hike in the previous year. Prime rents averaged EUR 44.9 per sqm in 2025.

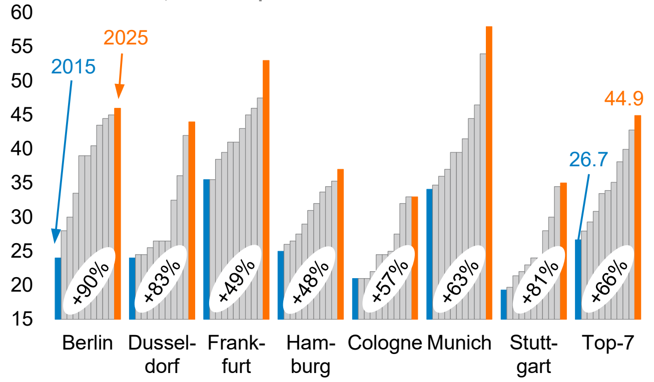
Despite strong growth, Frankfurt still lags Munich as the most expensive German office market

The trend in prime rents varies widely in terms of the rate of increase and rent levels. Within ten years, prime rents in Frankfurt and Hamburg rose by more than half, whereas the percentage increase in Berlin was nearly twice as high at 90 per cent. However, the steep rent growth in Berlin mainly covers the period from 2015 to 2022, with only moderate increases subsequently. In 2025, prime rents ranged from EUR 33 per sqm in Cologne to EUR 58 per sqm in Munich. Although prime rents in Frankfurt grew extremely strongly to EUR 53 per sqm in 2025, Munich defended its status as the most expensive German office market, overtaking Frankfurt several years ago.

Empty office space in top locations increases by 5 million sqm since 2019

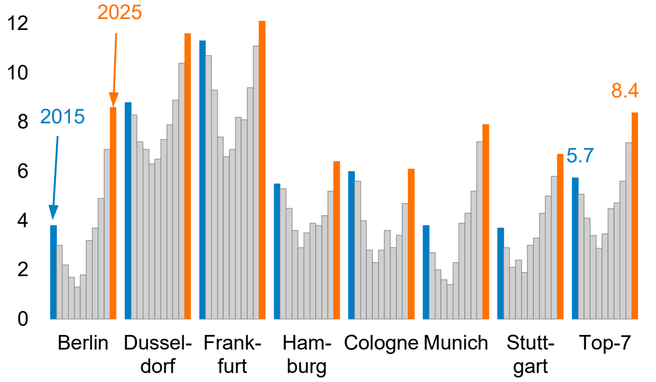
The growth in the vacancy rate to 8.4 per cent in 2025 is based on 7.1 million sqm of unlet office space – an increase of more than 5 million sqm in the top locations since 2019. Remote work is a key factor which affects all top locations equally, although trends in vacancy rates differ from place to place. At around 3.5 percentage points, growth was weakest in Hamburg and Cologne from 2019 to 2025. Vacancy rates are also lowest here at 6.3 per cent and 6.0 per cent respectively. The strongest growth of around 7 percentage points was reported in Berlin and Munich. As a result of the still very low vacancy rates here in 2019, the levels reached in 2025 were broadly in line with the market average. Vacancy rates did not increase quite as steeply in Duesseldorf and Frankfurt; however, because starting levels were much higher, these two office markets show double-digit vacancy rates of 11.4 per cent and 12.1 per cent respectively.

Prime rents increased again in 2025, but only Frankfurt achieved high growth
Prime office rents, in EUR/sqm



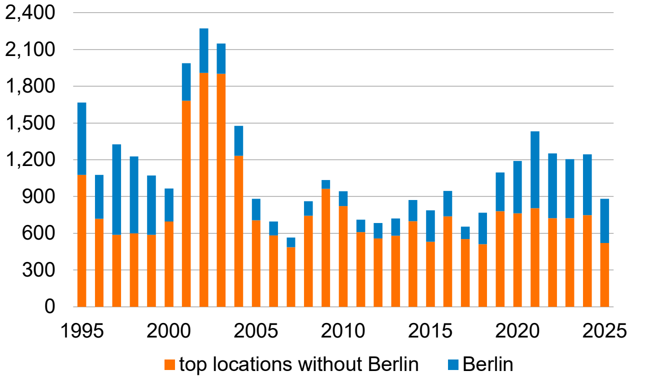
Source: bulwiengesa

Vacancy rates in the Top 7 office markets have grown sharply, but the increase was more moderate in 2025
Vacancy rate, in %



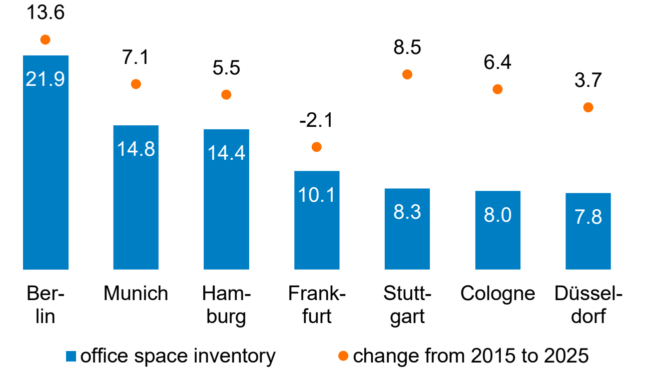
Source: bulwiengesa

Office space expansion mainly attributable to Berlin office projects
Annual new space, in ‘000 sqm



Source: bulwiengesa

Trends in supply of office space vary widely
Office space in sqm m, change in %



Source: bulwiengesa

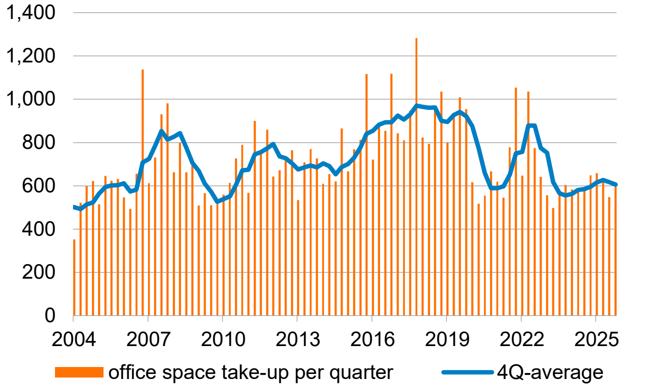
The increase in the vacancy rate is also partly attributable to accelerated office building, mainly driven by higher rents and a decline in the vacancy rate up to 2019. However, on closer inspection, it becomes clear that the intensified office building is focused mainly on Berlin. From 2001 to 2010 Berlin only accounted for about 15 per cent of total new space. Conversely, from 2021 to 2025, the corresponding figure for Berlin was consistently 40 per cent or more, whereas in the five previous years a figure of around 40 per cent was reported. The volume of new space was significantly lower in 2025 than in previous years as higher interest rates and building costs hampered new building.

Will more office building increase vacancy rates? New office space mainly focused on Berlin

As a result of the many office projects realized in Berlin, the office stock also showed the strongest growth of 14 per cent to a good 22 million sqm within ten years. Growth in Berlin office space thus clearly outpaced the market as a whole, which reported an increase of nearly 8 per cent. Berlin’s share of the total office space in the top locations has therefore increased from 85.3 million sqm to a good 26 per cent. Figures for the other locations range from 7.8 million sqm in Duesseldorf to 14.8 million sqm in Munich. Office space contracted slightly in Frankfurt, also as a result of conversions.

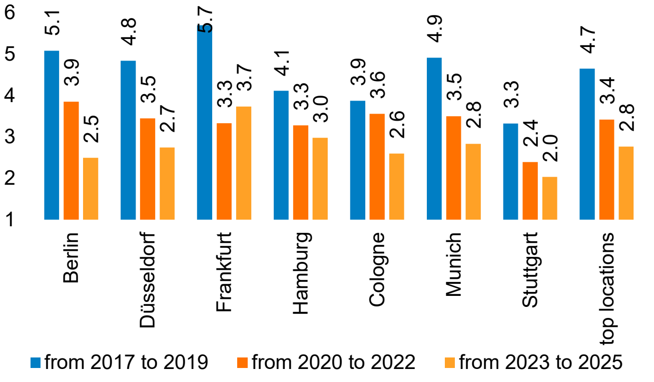
Office space grew strongly in Berlin, but contracted slightly in Frankfurt

Office market activity stagnates at a relatively high level
Cumulative office take-up in top locations, in ‘000 sqm



Source: bulwiengesa

Office take-up has clearly weakened in all locations
Annual office take-up as % of stock (average over 3 years)



Source: bulwiengesa

Generally weaker demand for office space due to remote work and the economic downturn is reflected in higher vacancy rates, stagnating rents outside the prime segment, and comparatively low office take-up. Between 2017 and 2019, on average around 3.7 million sqm of office space was still being let each year in the seven top locations. This represented 4.7 per cent of the office stock. Since 2023, rental performance has fallen to 2.4 million sqm each year and thus less than 3 per cent. Large-volume rental agreements are still a comparative rarity. Without numerous public sector rental agreements, market results would be even weaker.

Economic downturn and remote work reflected in low take-up

Office conclusion: Prime rents and vacancies continue to rise moderately

Prime rents have lost their function as a barometer for the office market since growth reflects only the demand overhang in what is ultimately a small segment of the office market. Legal offices, accountancy firms, and banks seek high-quality offices in the best areas of the top locations and are ready to pay high rents, in some cases of well above EUR 50 per sqm. However, given the steep hike in building costs, the high rents are also necessary in order to realize office projects.

Growth in prime rents no longer indicative of the market as a whole

Conversely, remote work and the economic downturn are mainly impacting the “bread and butter” end of the market, with many older premises in office locations on the edge of city centers and in the periphery. Given generally weak rental activity, these locations are often characterized by double-digit vacancy rates and stagnating rents. Given difficult economic conditions and the high degree of uncertainty surrounding the future trend, office demand and the ability to pay high rents are both limited. Relocation decisions are being deferred and existing rental contracts extended for the time being.

Remote work and economic downturn depress rental business significantly

One third of employees in Germany work at a desk, and most office buildings will therefore continue to be needed. This is also reflected in the generally moderate vacancy rates in the office market. Despite the slightly improved economic outlook, demand for space is likely to continue to decline due to demographic trends and artificial intelligence. However, declining construction activity and the conversion of obsolete office properties are also reducing the supply of space.

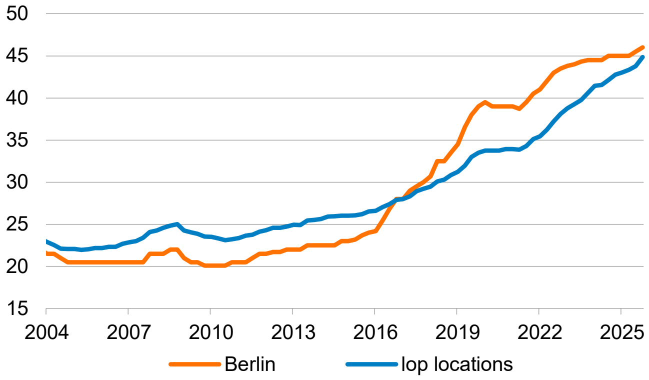
Offices still needed: One third of workers employed there

This could have benefits for solid office properties outside the top segment which have a good price/performance ratio. Finally, only a few office tenants are prepared to pay high city center rents. Most employees also travel to the office by car. Given strained housing markets and longer commutes, this is likely to remain the case. In addition to the top segment, easily accessible locations outside city centers should not therefore be written off. In contrast, the outlook for outdated office buildings and unfavorable locations continues to deteriorate. Rents in the prime segment are likely to rise further, albeit not continuously and everywhere. This was already evident last year.

Prime rents continue to rise, but offices with a good price/performance ratio also have potential

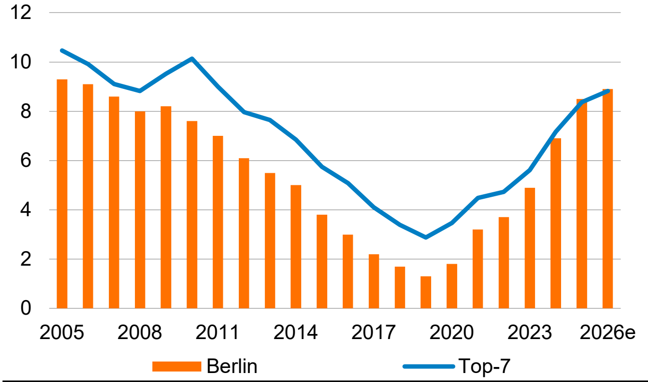
Overview of top locations
Berlin office market

Prime office rents
in EUR/sqm



Source: bulwiengesa

Vacancy rate
in %

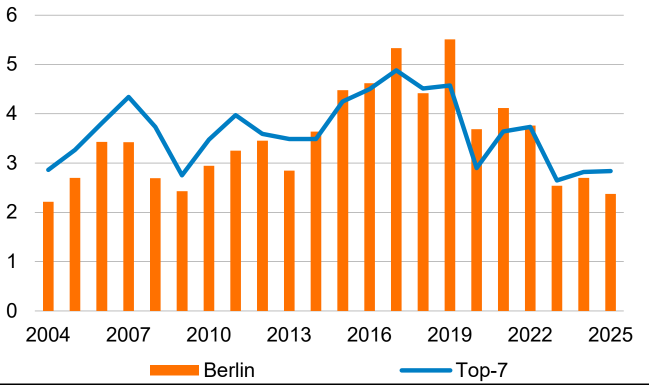


Source: bulwiengesa, DZ BANK Research forecast

Increase in rents slowed down by sharp rise in vacancies

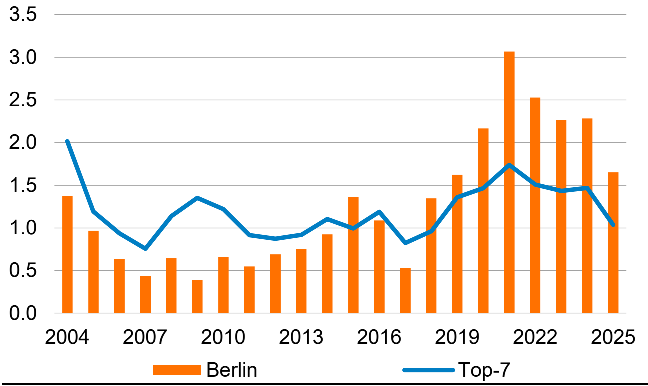
Berlin's resurgence has given the office market a strong impetus and it is now the largest in the country at almost 22 million sqm. Take-up in 2017 and 2019 reached levels of over one million sqm. However, it has more than halved since these earlier record highs and was down to 520,000 sqm in 2025 – its lowest level since 2009 – reflecting the fact that the economy remains sluggish and that there were few large transactions. Only two deals involved space of over 10,000 sqm, whereas there were still eight such transactions in 2024. The average space leased was under 1,000 sqm. After falling to just over one per cent in 2019, the vacancy rate had risen again sharply to 8.6 per cent in 2025, which means that there are almost two million sqm of vacant office space in Berlin. One reason for this is an above-average amount of office construction, which again reached a fairly high level in 2025, although, at the same time, it is also slowing down. After a long uptrend, prime rents have hardly risen any further in view of an increased supply of modern office space. Prime rents in 2025 stood at EUR 45.70 sqm, which is 1.6 per cent more than the previous year. Based on the latest prime rents, Berlin is the third most expensive office market in Germany after Munich and Frankfurt. The vacancy rate is likely to rise further this year, but not quite as much. We expect at most a minimal increase in prime rents.

Take-up
% of office stock



Source: bulwiengesa

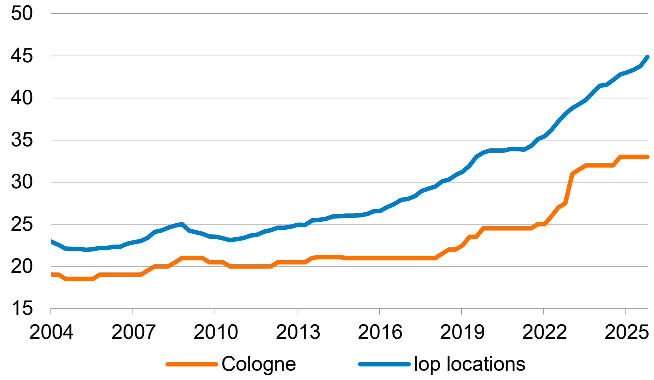
New office space
% of office stock



Source: bulwiengesa

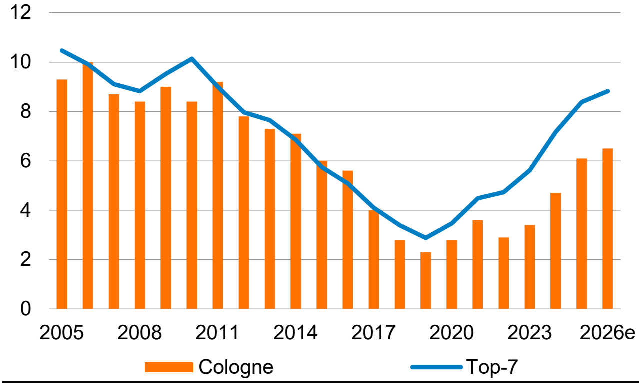
Cologne office market

Prime office rents
in EUR/sqm



Source: bulwiengesa

Vacancy rate
in %

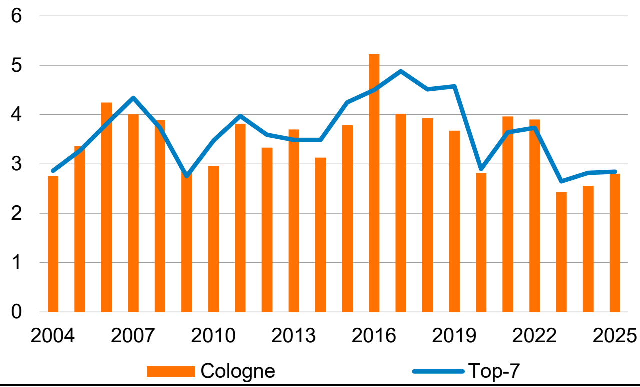


Source: bulwiengesa, DZ BANK Research forecast

Lowest vacancy rate among top German locations

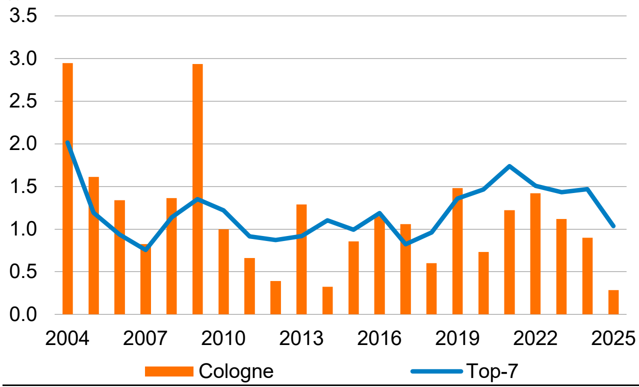
Cologne’s office market is rather modest in size at eight million sqm. In addition, both the vacancy rate and rents are the lowest among the top locations. The gap in relation to average prime rents in the top locations has moreover widened slightly further, after they stagnated at EUR 33 per sqm in Cologne in 2025. The supply of high-end office space in Cologne appears to have been still sufficiently high to meet demand, most likely helped by the fact that the public sector accounted for the bulk of demand in 2025 at over 30 per cent. Tenants included the Federal Agency for Real Estate (BImA) and the German Armed Forces (Bundeswehr) along with the Public Prosecutor’s Office (Staatsanwaltschaft). Other services accounted for over 20 per cent. Take-up was in line with the average level, reaching 225,000 sqm, bolstered by a number of large transactions. There was a sharp rise in the vacancy rate of almost 1.5 percentage points in 2025, but it remains moderate at 6.1 per cent. This means that Cologne has around 500,000 sqm of vacant office space. The vacancy rate could increase slightly in 2026 while prime rents are likely to lift at most moderately.

Take-up
% of office stock



Source: bulwiengesa

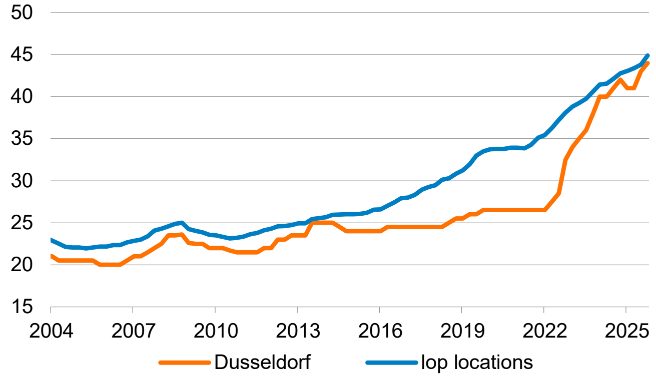
New office space
% of office stock



Source: bulwiengesa

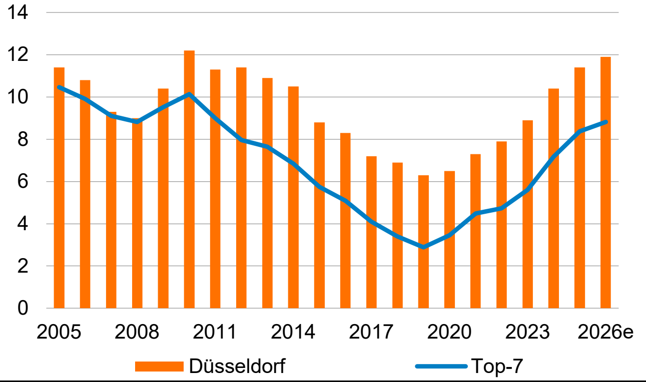
Düsseldorf office market

Prime office rents
in EUR/sqm



Source: bulwiengesa

Vacancy rate
in %

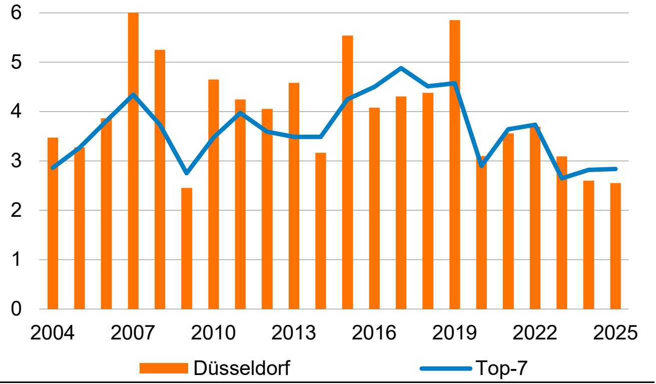


Source: bulwiengesa, DZ BANK Research forecast

Prime rents up sharply in Düsseldorf

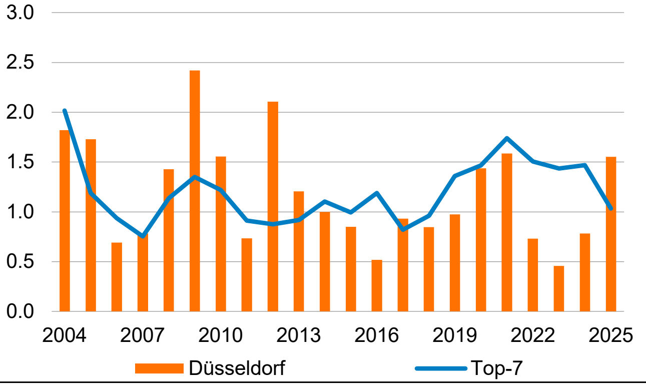
Düsseldorf is the smallest office market among the top locations with just under 7.8 million sqm of space, although only marginally behind Cologne and Stuttgart. Whereas prime rents in the top locations rose continuously in previous years, they hardly moved in Düsseldorf. However, interest in modern office space at a time of tight supply led to a sharp rise from 2022 onwards and prime rents reached EUR 44 per sqm in 2025 – an increase of almost five per cent on the previous year. The figure is therefore largely in line with the top location average. However, the sharp rise in rents, which mainly reflects project developments around the Königsallee, has not been accompanied by a high take-up. As in the previous year, the figure in 2025 only reached 200,000 sqm in the absence of large deals. The last time the figure was even lower was in 2009. Consultancy companies accounted for almost one fifth of office space let in 2025, underlining their major importance for Düsseldorf as a location. Whereas the vacancy rate in prime locations is low, it has risen by over one percentage point to 11.6 per cent in Düsseldorf as a whole. This equates to around 900,000 sqm of vacant space. Despite a high vacancy rate overall, larger offices in the sought-after prime segment are not available in the short term. Like the vacancy rate, prime rents could also increase this year, although a marked lift is unlikely after the sharp earlier rise.

Take-up
% of office stock



Source: bulwiengesa

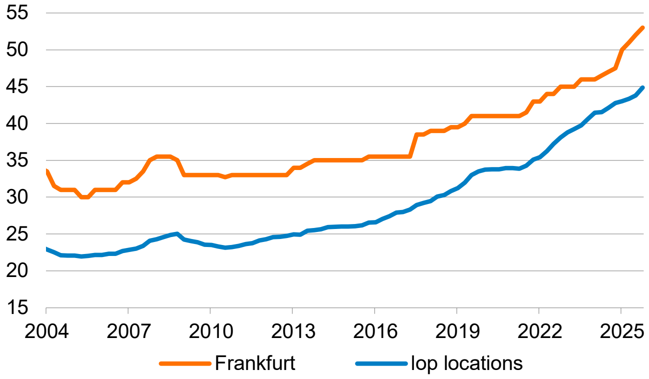
New office space
% of office stock



Source: bulwiengesa

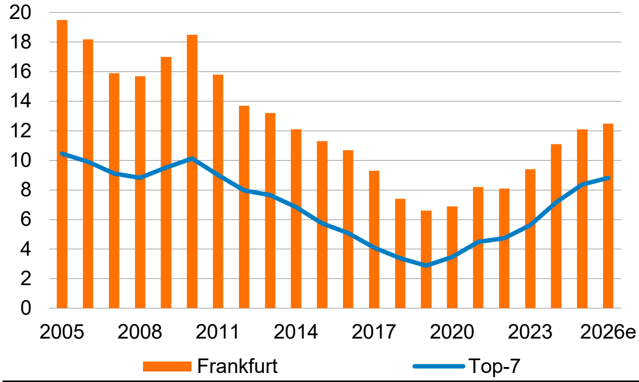
Frankfurt office market

Prime office rents
in EUR/sqm



Source: bulwiengesa

Vacancy rate
in %

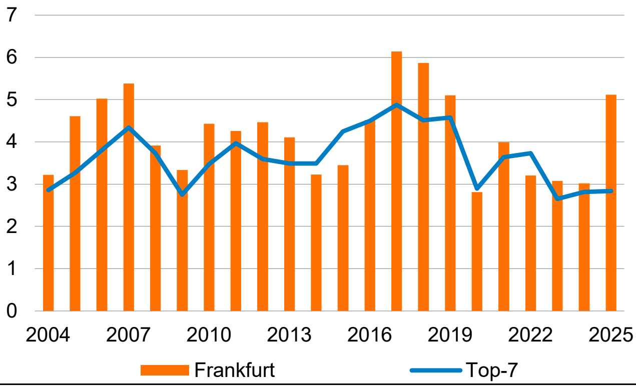


Source: bulwiengesa, DZ BANK Research forecast

Prime rents in Frankfurt up by over ten per cent in 2025

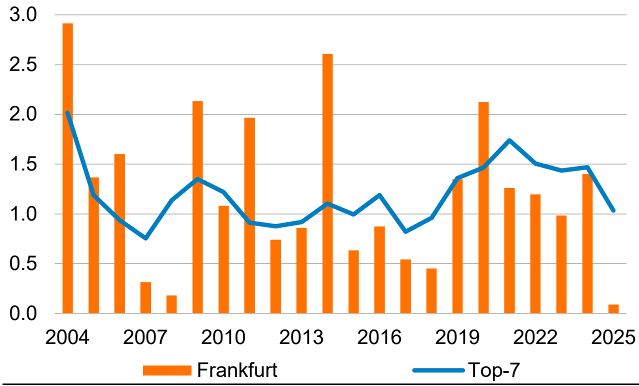
Frankfurt is one of the largest office markets in Germany with slightly over ten million sqm of space. For a long time, it also had the highest prime rents. In the last few years, though, it was overtaken by the Munich office market which is now way in the lead. Nevertheless, Frankfurt has been able to make up some ground since mid-2024. Prime rents rose to EUR 53 per sqm in 2025 – an increase of almost 12 per cent against the previous year. This reflected several large transactions, involving project developments and offices which have undergone a thorough modernization. One such example is the 205-meter high Central Business Tower, leased by Commerzbank alongside its head office on the Kaiserplatz. The move will involve giving up other offices and reducing the bank's overall footprint. ING Diba will be moving into new headquarters of 32,000 sqm in 2028 on the east side of Frankfurt near the ECB. KPMG is leaving its offices at the airport and moving to the city. Thanks for these large transactions, take-up exceeded the previous-year figure by over 200,000 sqm at 516,000 sqm to reach its best level since 2018. In contrast to this positive trend, the vacancy rate has increased further and now stands at 12.1 per cent. Unlike modern offices, it is now hardly possible to let older space which now stands empty because of tenants moving or downsizing. As in other locations, prime rents and the vacancy rate could continue to rise in tandem at a moderate rate.

Take-up
% of office stock



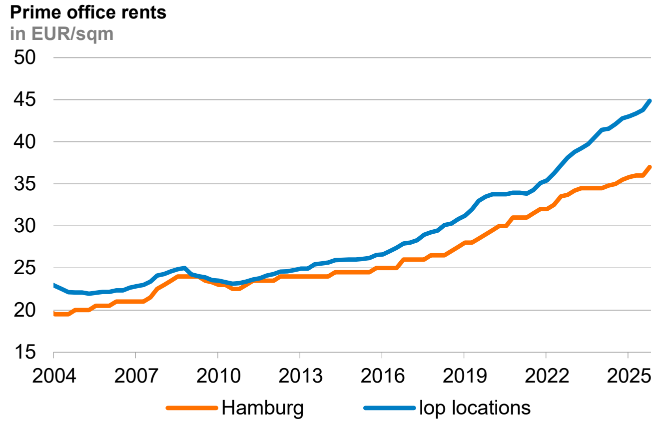
Source: bulwiengesa

New office space
% of office stock

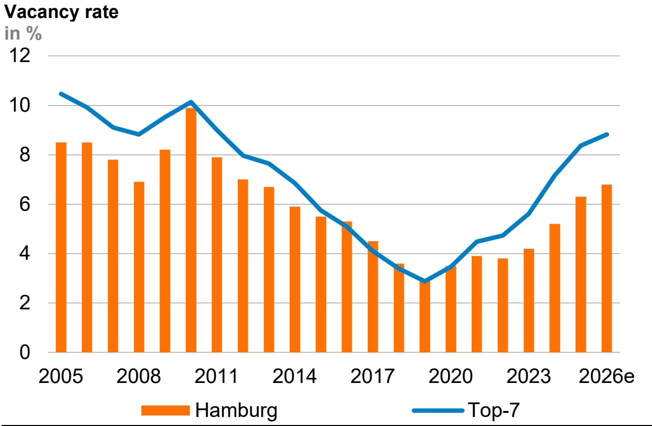


Source: bulwiengesa

Hamburg office market



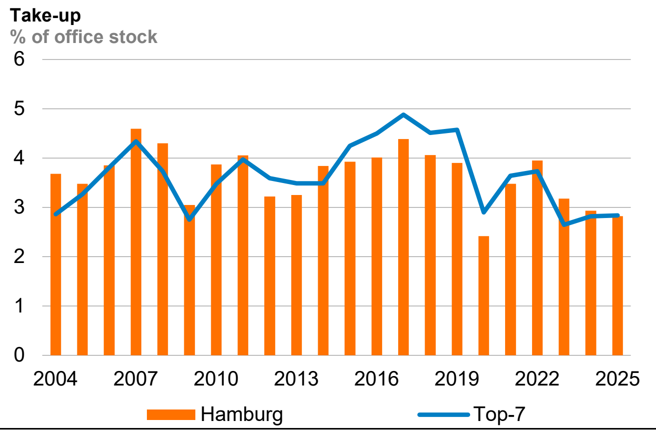
Source: bulwiengesa



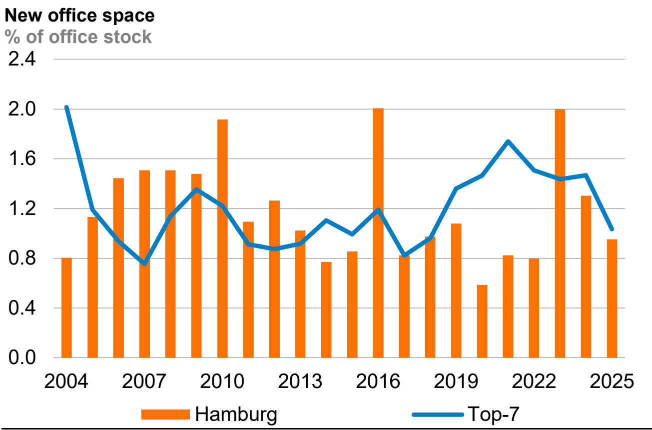
Source: bulwiengesa, DZ BANK Research forecast

Hamburg office market stand-out performer with low vacancy rate and solid market trend

Hamburg is the third largest office market in Germany behind Berlin and just behind Munich with 14.3 million sqm of space. After the ground was first broken in 2001, Hamburg's HafenCity has offered room for numerous office developments, currently mainly in the Elbbrücken Quarter. Another major office and housing development is taking shape across the Elbe with the Grasbrook Quarter. Adjacent to the Elbe bridges, is the Elbtower project which has been at a standstill for some time but is now back on track with the entry of a powerful investor, billionaire Dirk Rossmann. The city council is planning a natural history museum in the lower storeys, and the tower will include a Hilton a hotel. However, the height of the Elbtower is to be reduced by a fifth to around 200 meters. There is further good news from the Hamburg office market with prime rents up to EUR 37 per sqm in 2025 – almost five per cent more than the previous year. Even so, the gap in relation to expensive top locations such as Frankfurt and Munich has become much greater over time. However, this also true of Hamburg's vacancy rate which, at 6.4 per cent, has increased at a noticeably more moderate pace than the top location average. In contrast, take-up in 2025 was in line with the average at 405,000 sqm, although even in Hamburg, the boost from major transactions was rather weak. These included primarily the letting of former warehouse space. There is still upside potential for prime rents; they could reach the EUR 40 per sqm in 2026.



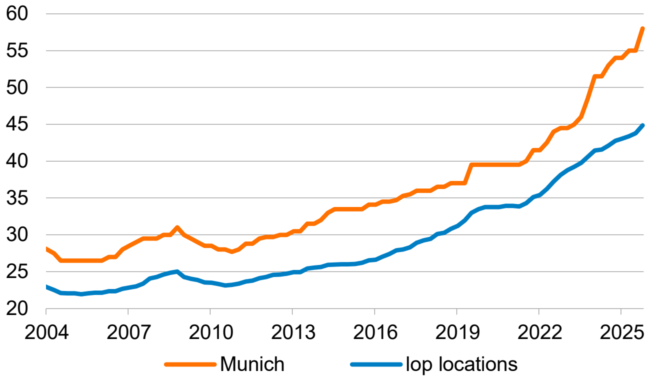
Source: bulwiengesa



Source: bulwiengesa

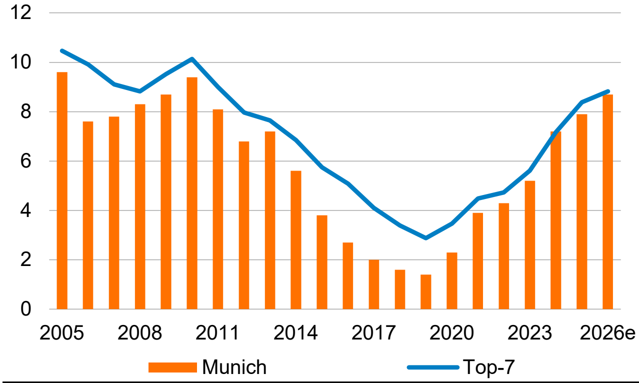
Munich office market

Prime office rents
in EUR/sqm



Source: bulwiengesa

Vacancy rate
in %

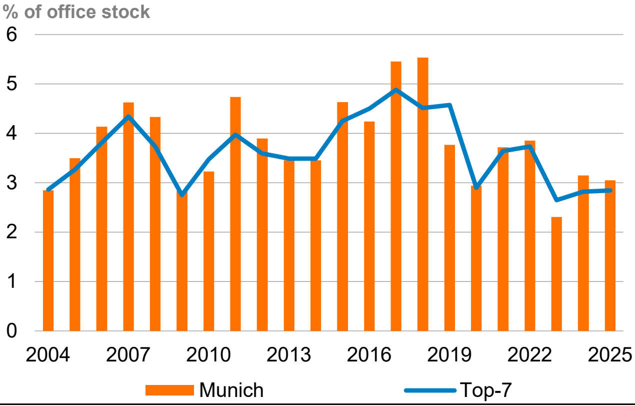


Source: bulwiengesa, DZ BANK Research forecast

Munich's prime office rents could be the first to reach EUR 60 per sqm in 2026

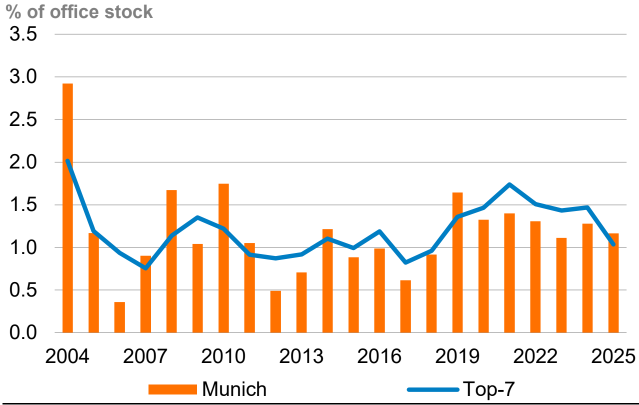
Munich is the second largest office market in Germany after Berlin with almost 15 million sqm of space. In 2023, the Bavarian capital overtook Frankfurt to become the most expensive market and even extended its lead despite a sharp rise in rents in the financial capital. At the end of 2025, prime rents in Munich had climbed further to EUR 58 per sqm which equates to a year-on-year increase of over seven per cent. Munich's office market benefits from one of the strongest economic regions in Germany. The fact that the city is home to US IT giants such as Amazon, Apple, Google and Microsoft reflects the location's high profile. They were joined at the beginning of 2025 by the German offices of ChatGPT developer OpenAI. The major Taiwanese chip manufacturer TSMC is planning to open a development center in the Bavarian capital and, according to media reports, Netflix is planning to move its European headquarters there. Munich is also home to various established groups such as Allianz, BMW, MTU, Munich Re, Siemens and Siemens Energy. However, even its strong economy has not prevented a sharp rise in the vacancy rate to 7.9 per cent from a low level. Take-up in 2025 was roughly in line with the previous-year level at 450,000 sqm, with transactions of all size categories. Almost 30 per cent of tenants were industrial companies, ahead of consultancies, IT and communications technology. The outlook for Munich's office market is good, and it would not come as any surprise if prime rents rose to EUR 60 per sqm or more in 2026.

Take-up
% of office stock



Source: bulwiengesa

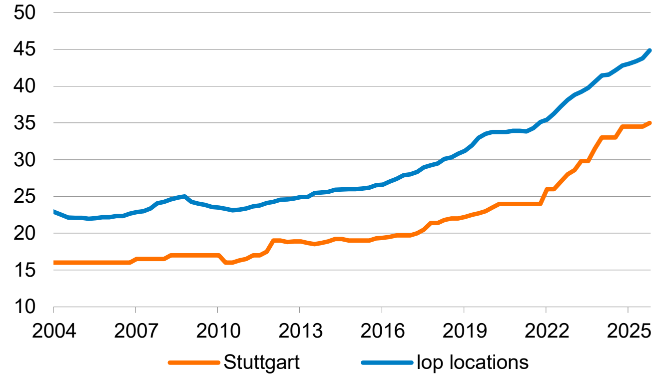
New office space
% of office stock



Source: bulwiengesa

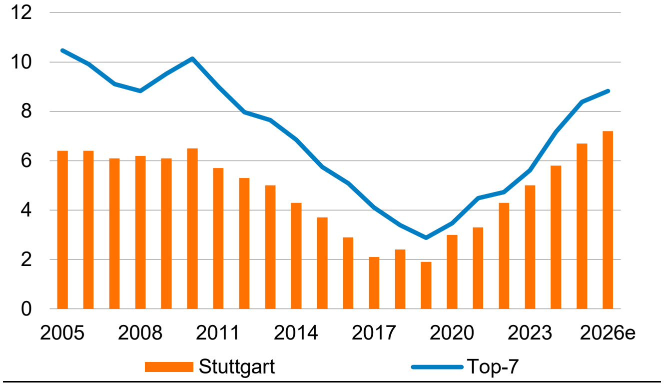
Stuttgart office market

Prime office rents
in EUR/sqm



Source: bulwiengesa

Vacancy rate
in %

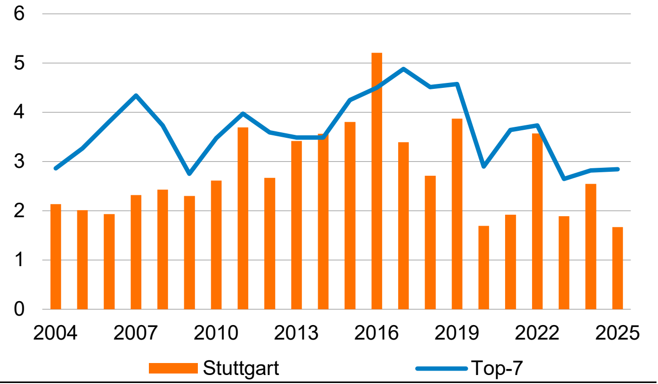


Source: bulwiengesa, DZ BANK Research forecast

High importance of industry also likely to weigh on office market

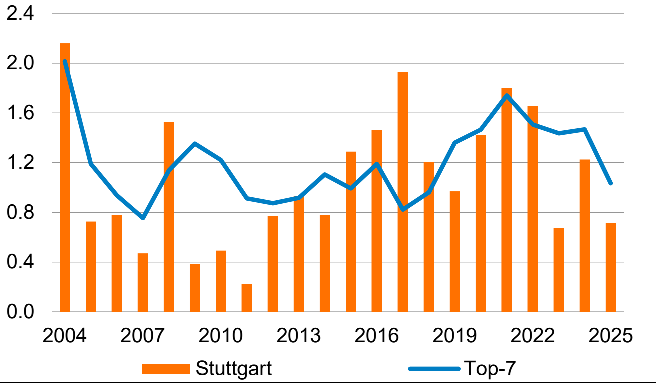
There has been a relatively strong increase of over ten per cent to 8.3 million sqm in Stuttgart's office stock in the last ten years, putting it in fifth place among the top locations, although it is only just ahead of Düsseldorf and Cologne. Unlike the other six top locations, Stuttgart's economy is more heavily biased towards industry and the proportion of the workforce employed in manufacturing is much higher. Consequently, the crisis in the industrial sector is hitting Stuttgart much harder than the other top locations. Moreover, the city's economic structure with a slightly less important services sector is accompanied by a more moderate take-up and this was again the case in 2025, when it was just 140,00 sqm. This also reflected the fact that companies have been postponing leasing larger spaces. Take-up would have been even lower without the support of bigger transactions involving the public sector. Nevertheless, there was a slight rise in prime rents of a good 1.5 per cent to EUR 35 per sqm in 2025. Like everywhere else, there was an increase in the vacancy rate of around one percentage point to 6.7 per cent in Stuttgart. It therefore remains below the top location average.

Take-up
% of office stock



Source: bulwiengesa

New office space
% of office stock



Source: bulwiengesa

RESIDENTIAL

Housing markets facing ever greater challenges

Housing markets a growing stress factor for city dwellers, not just in large conurbations

In a press release in mid-January 2026, the Social Housing Alliance (Bündnis Soziales Wohnen) spoke of a forthcoming "social crisis" in the housing market in which younger and older people would increasingly lose out. This does not only reflect a dwindling social housing stock, but also a shortage of affordable housing in general. Even more affluent households are struggling with high rents in top locations and other expensive cities. The situation is compounded by low vacancy rates which often lead to lengthy searches and compromises in relation to flat and location.

No sign of any marked easing in very tight rental market

Politicians are feeling the effects of the growing disquiet since five Landtag elections are scheduled to take place in 2026. Given the low rate of home ownership in Germany, the state of the rental market is increasingly important when it comes to securing votes. This is all the more true in cities where the proportion of households living in rented accommodation is far above average. Policymakers often opt for rent regulation; it is popular with voters and lighter on the public purse. As things stand, expensive funding programs aimed at improving the supply of housing have virtually disappeared, given empty coffers at federal, state and local level. The focus is now on easing building regulations in order to fuel the supply of housing without the need for billions in subsidies. Germany's Construction Turbo legislation and Building Type E Act aim to speed up housing construction and make it cheaper.

High demand for blocks of flats as asset class

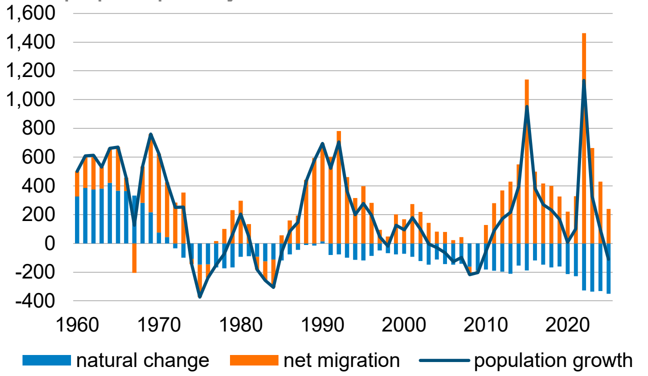
Whereas investors are currently more wary of the commercial property segment where vacancies are rising, there is greater interest in blocks of flats. A persistently tight market comes with good rental prospects, allowing stable cash flows and underlining the image of residential property as a relatively low-risk asset class. What then are the prospects for the housing market in top locations?

Problem of scarcity and overregulation

No sign of any easing in tight supply in growing cities

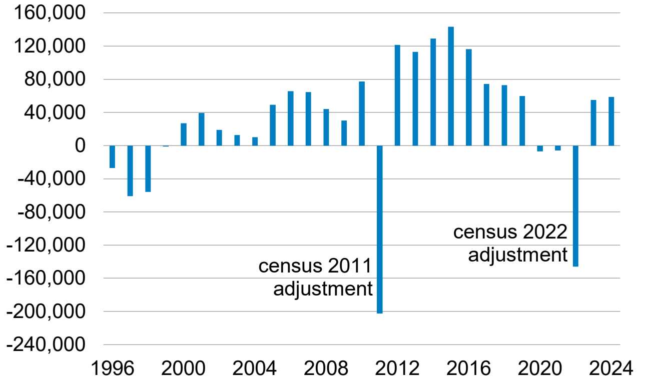
Supply in the housing market in the top locations is especially tight, driven by ongoing migration and insufficient new building. Even in other growing cities, though, vacancy rates of below one per cent tend to be the norm whereas a functioning housing market requires a vacancy reserve of two to three per cent. No housing market, at least not in any of the top locations, will reach this level in the foreseeable

Decline in Germany's population in 2025 when net migration failed to offset the birth deficit
In '000 people respectively



Source: Destatis

Top locations growing: Sharp increase in number of inhabitants in top seven cities in the last few years
Top locations: annual change in the no. of inhabitants



Source: Destatis

future. A good case in point is Frankfurt, where the vacancy rate for available properties was down to just 0.1 per in 2024 and housing demand can therefore virtually only be met from new builds. The situation is not improving, according to forecasts from the city council. The number of inhabitants is set to increase from 780,000 at present to 870,000 by 2040, which will require over 100,000 flats. Over 6,500 flats would have to be built every year over 15 years to meet the demand. It is doubtful whether this can be achieved, given a maximum of 5,100 new units (2017) per annum in the last 30 years, especially in view of the lack of housing reserves.

Demographic outlook could also slow down growth of top locations in the long term

In the long term, though, it could be an advantage if not so many residential units were built, since population forecasts from the Federal Statistical Office anticipate a gradual decline in the number of inhabitants. The “moderate scenario” envisaged a decline by over two million people by 2040, with a possible further decline of two million by 2050. This trend is not in the far distant future since Germany’s population already fell by 100,000 to 83.5 million inhabitants in 2025 through fewer births than deaths. The outlook is better in large conurbations with high manpower requirements. The population in the top locations grew by over 0.6 per cent from 2012 to 2024, twice as fast as in Germany as a whole. In the long term, though, conurbations will not be immune to the adverse demographic trend. Although extensive housing construction would ease the situation in the housing market, it could lead to vacancies in the long term.

Poor allocation one of the main reasons for tight housing supply

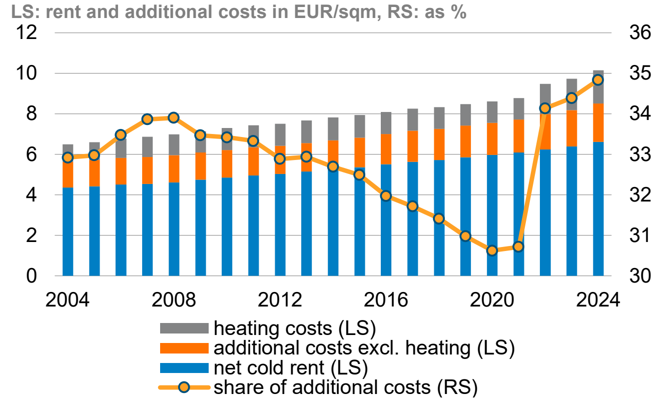
Insufficient new housing construction, moreover, is not the only reason for the tight housing market, as illustrated by the average amount of living space, which is quite high and has grown over the years. Living space in Germany works out at almost 50 sqm meters per person and, even in top locations, it is a fairly high 40 sqm or more. Two trends have contributed significantly to the fact that supply is nevertheless tight. Firstly, the nature of the supply, consisting of many medium-sized and large flats is a poor fit at a time when single-person households are the main driver behind demand. Secondly, the housing market is also more or less “frozen” because of rent regulation.

Tight supply driving up rents for new lets

Tight supply in the housing market at a time of high demand has led to a sharp rise in rents for new lets, leading to an ever widening gap in relation to dampened regulated rents. This is making it increasingly unattractive for people to downsize once children leave the nest, or to move for a new job. Berlin is a good illustration of this trend with people staying put longer and longer. The fluctuation from fewer

Most households in rented accommodation in Germany only pay a moderate rent

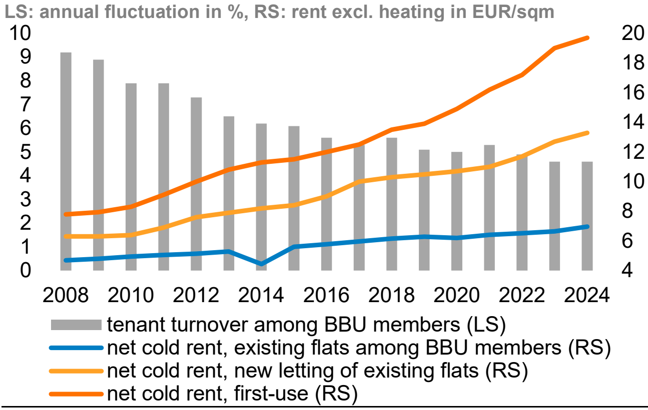
LS: rent and additional costs in EUR/sqm, RS: as %



Source: GdW

Example of Berlin: Growing gap in rent between existing lets and new lets means people increasingly staying put

LS: annual fluctuation in %, RS: rent excl. heating in EUR/sqm



Source: BBU Housing Association, bulwiengesa tenants giving notice among BBU member associations has halved to just 4.6 per cent per annum since 2008. The average tenancy length has therefore increased from 11 to around 22 years.

Tight housing market putting pressure on politicians who see regulation as smart solution

The rent brake introduced in Germany in 2015 in response to rising rents applies to accommodation built up to October 2014 and allows rents to exceed comparable local rents by a maximum of ten per cent. Further regulatory measures include caps, rent protection rules, a ban on conversions and social housing quotas for new developments. One disadvantage of rental regulation is that it tends to lead to shrinking supply. In other words, it is partly responsible for the tightening in the housing market. The brake has also led to avoidance tactics. Instead of the usual tenancies, landlords are opting for temporary or furnished lets. This mainly affects large cities such as Berlin and has led to a further shrinking in the already tight supply of smaller flats. Despite this unfortunate consequence, the German government has extended the rent brake to 2029 and is also aiming for a further tightening in relation to rent indices and furnished flats.

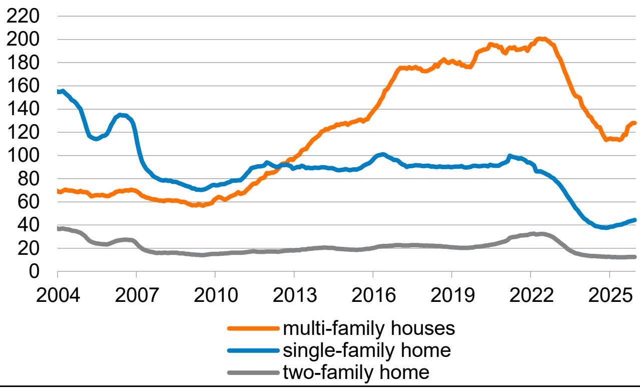
Berlin as special case: Is regulation history being written there?

In recent years, Berlin's housing market has repeatedly made the headlines with regulation plans that smack of socialism. One of these was the introduction of the rent cap in 2019, although the project failed after the German Constitutional Court ruled against it. In 2021, a majority of Berliners voted in favor of expropriating the big housing associations. The move was then reviewed by a commission of experts. At the end of 2025, Berlin's senate presented a draft on the promised "socialization law". The issue of housing is again likely to play a key role in the forthcoming Berlin state election which takes place in the autumn of 2026. Investors in Berlin's housing market should keep an eye on potential restrictions in tenancy law. If Berlin's regulatory initiatives are successful, they could also spread to other cities.

Most people paying a moderate rent, but supply of cheap flats dwindling

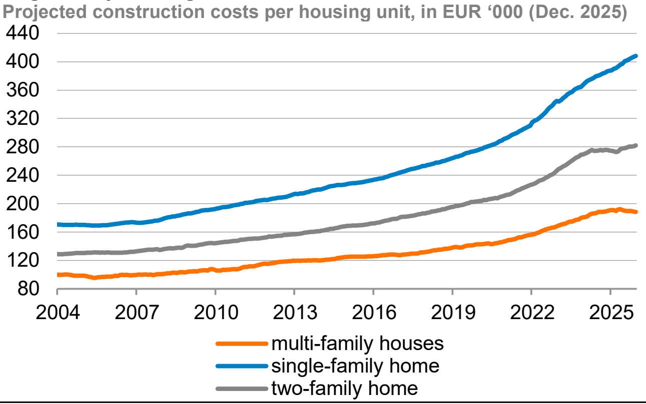
Contrary to public perception, most tenants are paying moderate rents in view of long-term tenancy agreements. The net average cold rent in 2024 among the 3,000 housing associations in the GdW was EUR 6.62 per sqm, increasing to EUR 10 per sqm when heating and other bills are included, which means that heating and bills make up roughly one third of gross rents. However, the supply of cheap flats is dwindling. At the time of reunification, there were still over three million social housing units in Germany, but the figure has already fallen by around two thirds and could fall further to around 550,000 units by 2035.

After a sharp fall, number of building permits now picking up again
Building permits (new builds only), in '000 housing units (Dec. 2025)



Source: Destatis

Slight fall in building costs for blocks of flats, but further sharp rise for single-family dwellings
Projected construction costs per housing unit, in EUR '000 (Dec. 2025)



Source: Destatis

Problem of tight housing supply and crisis in the building sector

Tight housing supply further compounded by crisis in the construction sector

Housing construction in Germany picked up in 2010, because rising rents and falling interest rates made investing in housing more attractive. However, a simultaneous sharp rise in construction and financing costs because of expensive building and energy efficiency standards led to a sharp slowdown in new building. Middle-class families can now hardly afford to buy a house, and single-family dwellings therefore now hardly figure at all in new builds. However, even privately financed flat building is now hardly feasible financially in view of rents of EUR 20 per sqm and more that this calls for in many places. Consequently, weak new building falls to subsidized housing construction which still allows an adequate return despite low rents.

Housing construction stabilising at very low level

In the new build segment – excluding renovation measures – building permits for one, two and three-family dwellings almost halved to just 170,000 in the period from the beginning of 2022 to the end of 2024. In 2025, however, the number picked up slightly. Whereas projected building costs for single-family dwellings continued to rise unabated, they fell slightly per unit in the case of blocks of flats. This was probably helped by generally smaller flats with more modest specifications in subsidized new builds. Overall, though, the Statistical Office’s building cost index continues to increase by slightly over three per cent per year.

Aim to build faster and cheaper: Construction Turbo law and Building Type E Act

The aim of reducing building costs in the face of high building costs is nothing new but implementing this is not so simple. Modular and serial construction is not really taking off because the standardization of building types is being slowed down by 16 different state building codes. There are high hopes of the Building Turbo concept developed by the previous government (simpler building permit process) and Building Type E (low construction costs). The Newbuild Turbo legislation (approved) is based on exceptions to construction planning law with a timeframe limited to 2030. If a municipality opts to go down this route, housing can be approved quicker and without development plan. In addition, any such development can bypass noise protection regulations, so that more sites can be used for new building. In contrast the Building Type E act has yet to win approval. It aims to allow exceptions from norm-based requirements, i.e. “recognized technical rules”, legally – but restricted to comfort standards such as protection from noise pollution.

Cheaper new housing possible, but only if restrictions this would entail are acceptable

Potential savings when constructing blocks of flats could be achieved not only through lower standards such as a reduction in ceiling thickness, but above all by leaving out expensive elements such as cellars or underground garages. Lower construction costs and a lower cold rent would also entail a lower quality of life though. Acceptance of such housing along with legal problems could mean that existing building standards continue to be applied. The simplest way of keeping costs down will be to build more compact homes. However, the cost advantage will not be reflected in the rent per sqm, but in the rent ultimately charged for the flat as a whole.

Problem of decarbonization

Decarbonizing the housing stock a huge challenge

Germany reached its self-imposed climate target in 2024 and 2025, helped by a weak economy and mild winter. However, the building sector, where three quarters of homes are heated with oil and gas, missed the target. Since a general watering down of climate targets is unlikely, the pressure to reduce CO_2 emissions in the building sector remains high, driven by EU rules and regulations such as the EU Taxonomy Regulation, the Energy Performance of Buildings Directive (EPBD) and the Energy Efficiency Directive (EED). The EPBD, for example, aims to reduce greenhouse gas emission from the building stock by 16 per cent by 2030 in relation to 2020, and by 20 to 22 per cent by 2035. The aim is to achieve this primarily by renovating buildings with the poorest energy performance. There is therefore limited scope in the Building Energy Act (GEG) which is coming up for revision. Instead of the focus being on high energy efficiency, which pushes up costs, the focus will be on a more financially viable reduction in CO_2 emissions.

Rising carbon prices increasing incentive to improve energy efficiency

In addition to the drive towards renovation and modernization, there will also be incentives arising from what is likely to be a marked rise in carbon prices with the implementation of the Emissions Trading System (EU ETS-2), the start of which was recently postponed to 2028 by the EU environment ministers. Rising carbon prices will also affect landlords, especially in the case of older multi-family dwellings, because landlords will have to bear up to 95 per cent of the cost of CO_2 emissions. On the plus side for landlords, up to eight per cent of modernization costs – up to limits set out under Section 559 BGB – can be passed on to tenants. An increase in rent by a maximum of EUR 3 per sqm within six years will be allowed – or a maximum of EUR 2 per sqm in the case of cold rents of up EUR 7 per sqm. However, where rents are low, this will go together with a substantial percentage increase in rent, which could hit cheaper flats at the less well-off end of the tenant spectrum especially hard.

Modernization costs can be passed on in rents

Housing markets in the top locations

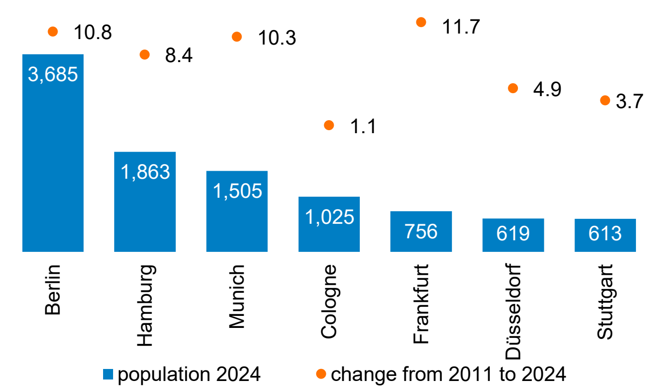
Strong growth in top locations, but at varying rates

The population in the seven top locations grew to 10.1 million in 2024. The number of inhabitants was up by 800,000 in relation to the 2011 census, i.e. an 8.5 per cent increase. This sharp rise has led to high demand for housing. However, there are noticeable variations in the trend. Munich, Berlin and Frankfurt have seen close to two-digit growth despite expensive housing. Hamburg has lagged behind at eight per cent. In contrast, population growth in Stuttgart and Düsseldorf has been much weaker at four and five per cent respectively. The number of inhabitants in Cologne has largely stagnated, after a substantial downward revision in the 2022 census.

Supply of mostly larger flats failing to meet demand from numerous single-person households

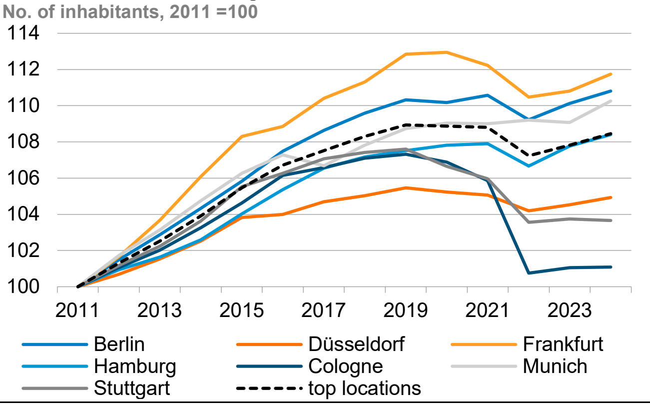
Another reason for the huge pressure on the housing market is the large number of single-person households. Over half of households consist of just one person and the proportion has increased further since the turn of the millennium. In contrast, smaller flats are greatly underrepresented with the housing stock consisting mostly of medium to large flats. However, housing markets have reacted to the trend. Whereas, twenty-five years ago, the average share of smaller, one and two room flats in the top locations stood at 15 per cent, by 2024, the figure was 24 per cent.

Size and growth momentum: big differences between top locations
No. of inhabitants in ’000, change in %



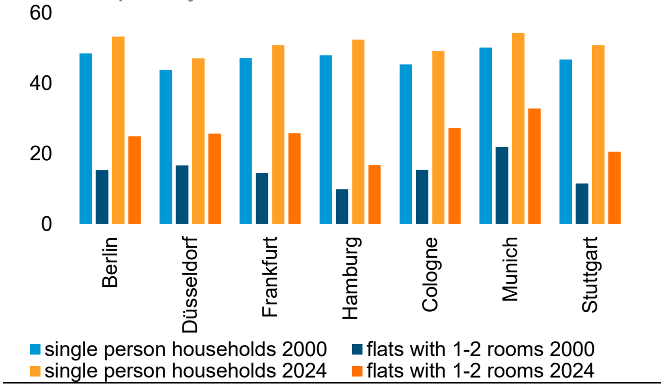
Source: Destatis

Strongest population growth in Frankfurt, Berlin and Munich; marked downward revision for Cologne after 2022 census
No. of inhabitants, 2011 =100



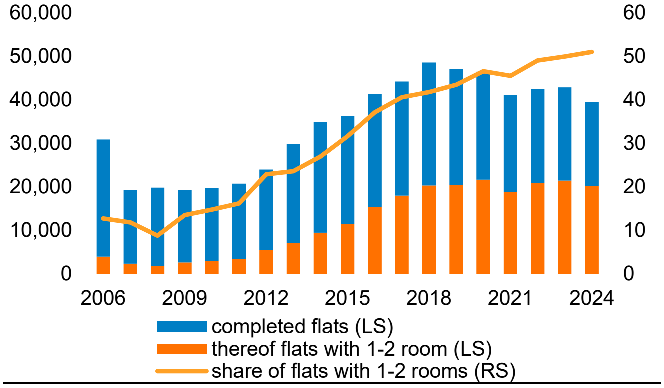
Source: Destatis

Top locations single-person strongholds and housing supply clearly adapting to that demand
% share respectively



Source: bulwiengesa

Considerable increase in importance of small flats in new housing
LS: no. of completed flats, RS: % share



Source: bulwiengesa

The real estate sector has responded and the proportion of small flats in new developments has increased substantially. These units now make up half of completions. There are also economic reasons for this since the sharp rise in rents means that fewer households can now afford large flats. This is especially true of single-person households which, in any case, face a higher accommodation cost load. This group has the highest per capita used living space.

Sharp rise in proportion of small flats in new developments

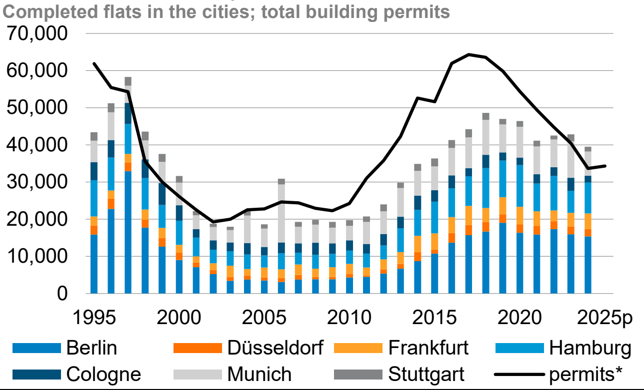
High demand for housing led to an upturn in new building. Whereas the aggregate number of units built in the top locations in the period from 2007 to 2010 did not even reach 20,000, the figure had climbed to almost 50,000 by 2018. Since then, though, new housing construction has been easing off. Completions fell to below 40,000 again in 2024 for the first time since 2015 and, in view of only 34,000 building permits most recently, the number of completions fell in 2025 and is likely to dwindle further in 2026.

After a marked upturn, new building dwindling despite high demand

However, the extent of new housing development varies sharply from one of the seven top locations to another. Cologne and Stuttgart have the lowest level in relation to number of inhabitants. Moreover, there has been no sign of any visible upturn in construction activity in the last few years. Completions have mainly risen sharply in Berlin, Hamburg and Düsseldorf. Even Berlin, which has often been criticized for administrative chaos, has presented solid figures. Despite an impressive

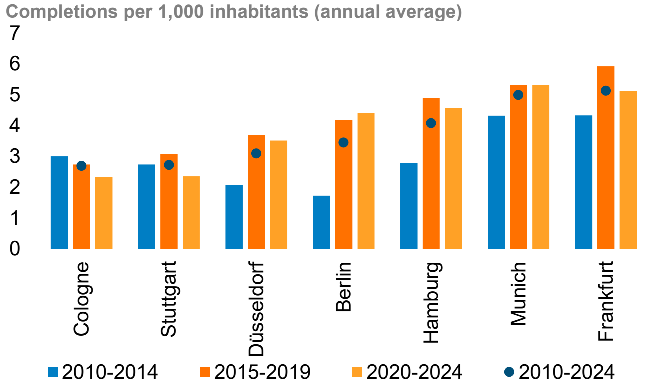
Twice as much new housing development in Frankfurt and Munich than in Cologne and Stuttgart

Trend in building permit numbers suggests new housing construction set to weaken after a sharp earlier rise
Completed flats in the cities; total building permits



Source: bulwiengesa, DZ BANK *) aggregate building permits Top7

Variations in new supply: new building in Frankfurt and Munich consistently almost twice the level in Cologne and Stuttgart
Completions per 1,000 inhabitants (annual average)



Source: bulwiengesa

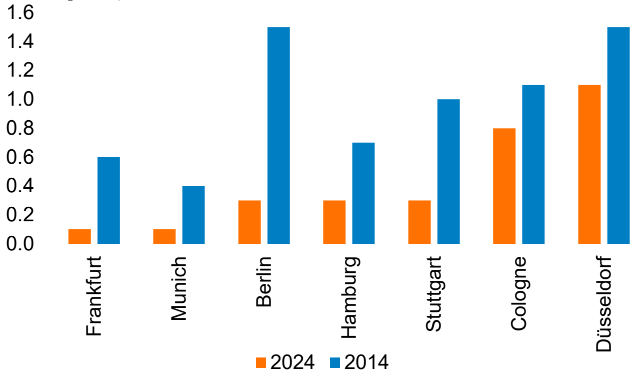
expansion in new building, the three cities mentioned could not match the level of Frankfurt and Munich which have seen a consistently high number of completions of around five flats per 1,000 inhabitants over many years – roughly twice the level in Cologne and Stuttgart.

Vacancy rate in Frankfurt and Munich down to almost zero

The tight housing market is mostly reflected in low vacancy rates which have fallen in all seven cities in the last few years. The vacancy rate in the Frankfurt and Munich rental market has fallen to under 0.1 per cent. The situation is hardly any better in Berlin, Hamburg or Stuttgart with a figure of 0.3 per cent. The vacancy rate only factors in properties that can actually be let. Properties that may be empty because of forthcoming renovation are not factored in. The fact that hardly any flats are available is dampening fluctuation in the housing market as does the discrepancy between high rents for new lets and lower rents for existing lets. This is illustrated by the rent index, according to which a typical flat from 1970s housing stock costs around EUR 8 per sqm in Berlin and Hamburg and around EUR 9.50 per sqm in Frankfurt and Munich.

Low vacancy rates in Düsseldorf and Cologne; down to practically zero in remaining top locations

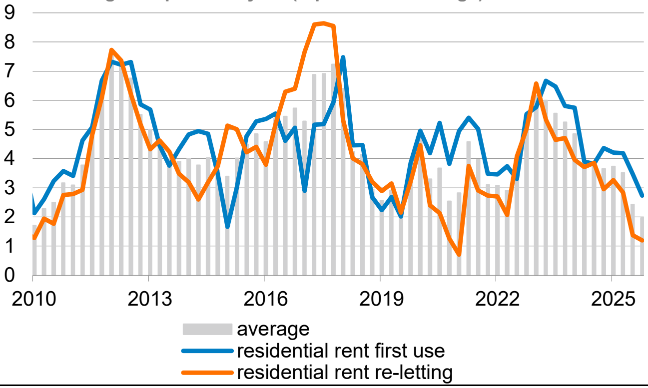
Vacancy rate, in %



Source: CBRE/empirica

Significant easing off of rental growth in top locations despite tight market

Rent as % against previous year (top location average)



Source: bulwiengesa

Rents for new lets up to very high level

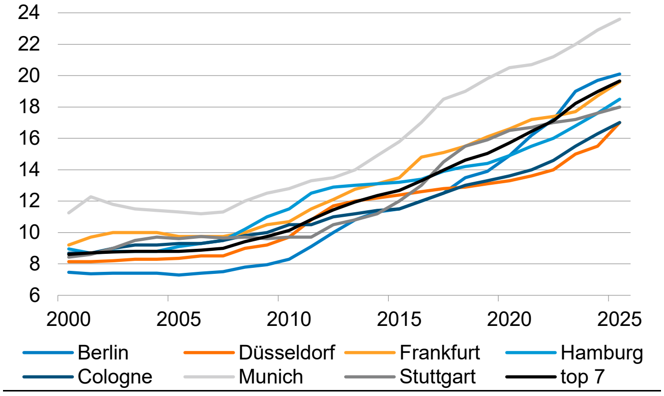
In contrast, rents for new lets have risen to a high level in view of tight supply. Initial rents in 2025 reached almost EUR 20 per sqm on average across the top locations, Cologne and Düsseldorf were the cheapest at EUR 17 per sqm; Munich was the most expensive at EUR 23.60 per sqm. The rent for existing lets was roughly EUR 15 per sqm. Berlin was the cheapest at EUR 13.40 per sqm. Munich was well above average at EUR 20.20 per sqm. Rents have increased by around 50 per cent over ten years. Consumer prices on the other hand rose by a much slower 30 per cent. The increase in rents in Düsseldorf and Hamburg was slightly slower at 40 per cent. Rents in Berlin have undergone the sharpest rise since 2015 at 70 per cent, reflecting a lower starting point.

High property prices pushing demand towards rental market

Property prices have risen much faster than rents for new tenancies. Despite the correction in the property market, property prices for existing housing stock have surged by almost 70 per cent since 2015 and as much as 155 per cent against 2010. The average price for an existing property in the seven top locations was around EUR 5,400 per sqm in 2025. The price range started at around EUR 4,500 per sqm in Cologne and Düsseldorf, rising to over EUR 8,000 per sqm in Munich. Based on current mortgage rates of over four per cent, high purchase prices mean mortgage payments that are way above rents and that few households can afford. Consequently, demand for housing continues to be concentrated mainly on rental properties.

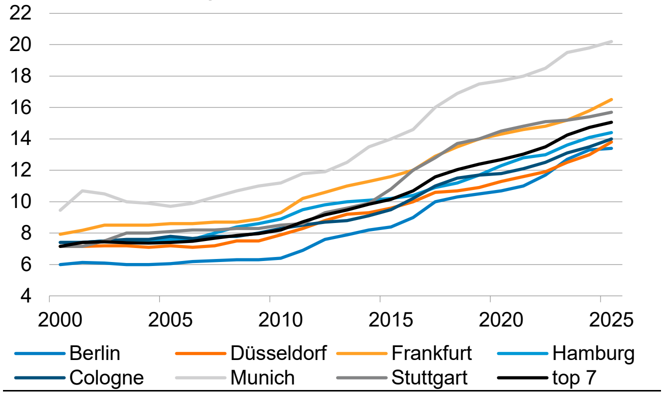
Top locations: rents and purchase prices in the housing market

Rents for new lets: rental growth since 2000
Net cold rent in EUR/sqm



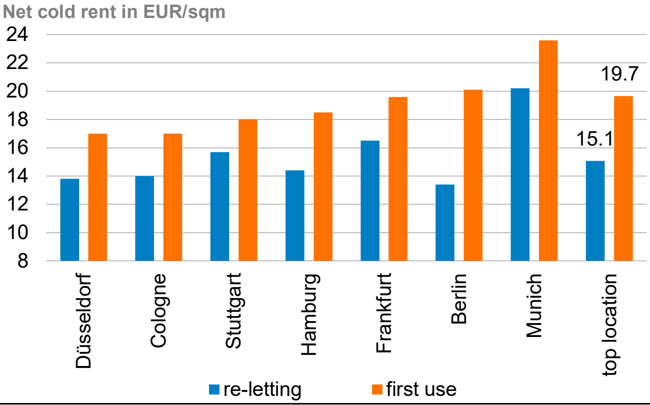
Source: bulwiengesa

Re-lets: rental growth since 2000
Net cold rent in EUR/sqm



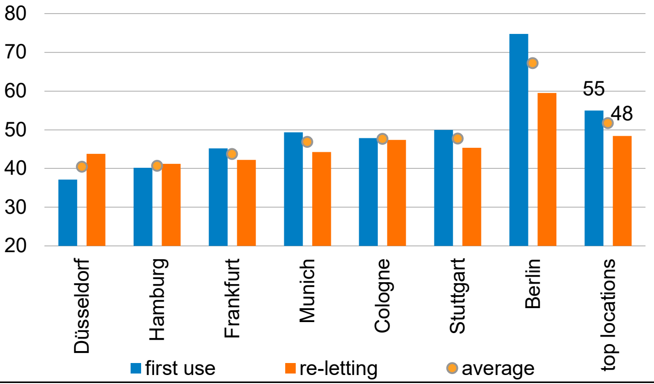
Source: bulwiengesa

Flat rents 2025
Net cold rent in EUR/sqm



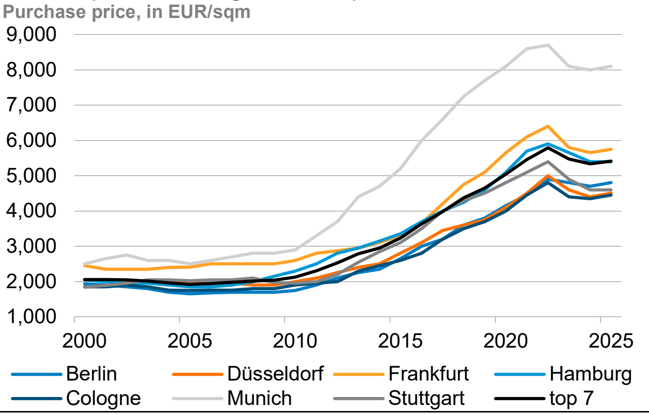
Source: bulwiengesa

Change in net cold rents from 2015 to 2025
in %



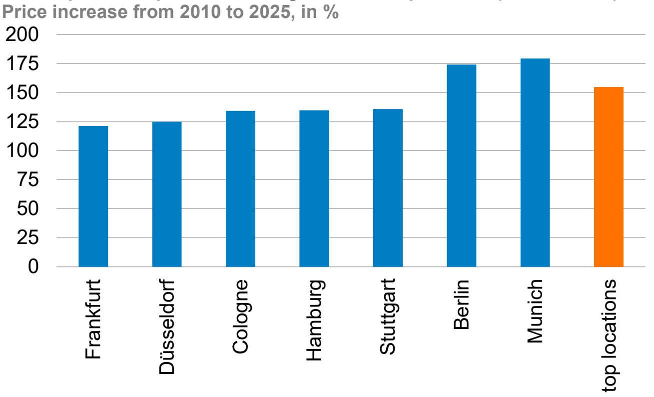
Source: bulwiengesa

Purchase price for existing owner-occupied flats since 2000
Purchase price, in EUR/sqm



Source: bulwiengesa

Rise in purchase price of existing owner-occupied flats (2010 to 2025)
Price increase from 2010 to 2025, in %



Source: bulwiengesa

Outlook for the housing markets in the top locations

Housing market increasingly becoming a lottery

Finding somewhere to live has now become something of a lottery in the top locations; with hundreds of flat hunters, who gets the flat in question is just a question of chance. Luck of the draw, though, is out of place when it comes to looking for a home. A functioning housing market is much more a social necessity. However, the situation is not just difficult for renters; it is detrimental to the economy as a whole, since dwindling fluctuation means a decline in mobility in the labor market and companies in large conurbations find it more difficult to attract staff.

Situation in the housing market not ideal for landlords either

Even for landlords, this supposedly favorable situation, given good letting prospects, also comes with drawbacks. Because people are staying put for longer, re-lets with much higher rents are rarer. In addition, existing rents are already high and only a dwindling number of households can afford to pay higher rents. Other contributory factors are Germany’s economic woes along with the financial burden on families from rising food prices, higher energy costs and increasing social security contributions. This fits in with the ImmoScout Housing Barometer which shows a decline in demand for rental flats, affecting mainly lower-income households. However, rental growth in the top locations has also slowed down noticeably. The average annual rent rise fell to two per cent in Q4 2025 – the lowest figure in 15 years.

Housing markets becoming increasingly complex from more regulation

Another negative effect of the tight market is the increasing number of legal disputes. Almost 200,000 rent issues went to court in 2024. In addition, there is the risk of further regulatory measures as pressure grows on policymakers when they are hardly in a position to roll out expensive funding programs in view of empty coffers. Optimized regulations are the main option to bolster new building. However, building remains expensive; it is subject to increasing environmental restrictions and often comes up against local resistance. Tinkering with tenancy law is also proving to be counterproductive because it means that investor funds needed for more new building are being channeled towards other assets. However, there regulations also offer growth opportunities for professional landlords since they are better able to cope with legal requirements at a time when the majority of private landlords are becoming increasingly overwhelmed by complex tenancy law and gradually pulling out of the rental market.

Outlook: Rise in rents likely to align with income growth

Housing markets in the top locations are expected to remain extremely tight for the foreseeable future. Completion figures are likely to dip slightly further before they start to pick up again gradually from 2027 onwards. In addition, demand should ease slightly with a more moderate level of immigration in Germany. However, the low rate of fluctuation in the existing housing stock is set largely to continue. Assuming a still negligible vacancy risk, the pace of rental growth is likely to align with income growth. We anticipate an increase of around three per cent in rents for new lets in the top locations this year.

GLOSSARY

Centrality score	Retail centrality is calculated by dividing retail sales in a specific location by retail spending and then multiplying the result by 100. The figure will be above 100 points if retail sales are higher than retail spending and consequently that location in question has additional purchasing power.
Multi-family multiplier	The purchase price is divided by the cold rent in the first year and thus corresponds to the reciprocal value of the gross initial yield. Additional costs such as utilities and management costs are not taken into account.
Net initial yield	The initial rental yield for office and retail space is calculated dividing the annual net rent by the overall purchase price, taking into account additional charges.
New space	Office space completed in a particular year from new building.
Office space take-up	Office space newly occupied during a one-year period in a location either through letting or owner occupation. The figure does not include contract extensions. The timing factored in is not the beginning of the actual use of the space, but when the contract was signed.
Prime rent	The prime rent represents a mean of the top 3 to 5 percent of lettings in the market and therefore the figure given does not correspond to the absolute top rent.
Purchasing power score	Purchasing power relevant to the retail sector defines that part of the income of households in a region which is available for purchasing goods and services. The purchasing power figure describes a location's ability to purchase goods and services in relation to the German average which is set at 100 points.
Reg-12/Regional-12	Space and inhabitant-weighted index consisting of 12 regional centers, namely Augsburg, Bremen, Darmstadt, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mainz, Mannheim, Münster and Nuremberg.
Top7	Space and inhabitant-weighted index of the seven top locations under consideration in this report, namely Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart.
Vacancy rate	Proportion of vacant space in a location in relation to existing space.

Source: bulwiengesa, DZ BANK

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