Volksbanken Raiffeisenbanken
cooperative financial network

A research publication by DZ HYP | March 2025

REAL ESTATE MARKET GERMANY 2025

Decline in new construction on housing market
Marked differences between office space and retail sectors

dzhyp.de

DZ HYP

TABLE OF CONTENTS

PREFACE

Dear readers,
The last few years have been quite a challenge for the German real estate market. In 2025, market performance continues to be hampered by factors such as the weakness of the German economy and structural change impacting individual asset classes. However, the overall outlook is noticeably brighter, not least because valuation mark-downs are set to come to an end. At the same time, the markets are becoming increasingly heterogeneous. Here, a more differentiated picture emerges not just when comparing different segments but also when examining the growing impact of various influencing factors within the different asset classes. This real estate market report analyses the development of the retail, office and residential segments at the top locations in Germany – Hamburg, Berlin, Dusseldorf, Cologne, Frankfurt/Main, Stuttgart and Munich.

The study shows how the housing market is being shaped by high demand at a time when construction project and completion numbers are declining. This divergence is affecting the top locations in particular, its impact also depending on factors such as migration numbers, supply structure and vacancy rates. The markets for office and retail properties are undergoing fundamental structural changes. Faced with changing requirements, more and more existing properties are failing to supply what the market demands.

The first signs of a revival were seen on the investment markets in mid-2024, mainly on account of falling interest rates. After a significant increase, rental yields stabilised at higher levels, which also put an end to valuation corrections.

This study includes a section that examines current developments on the real estate market for hotels. Despite difficult economic conditions, the hotel industry is enjoying steady growth in the number of overnight stays. At the same time, the industry is faced with cost increases and a shortage of skilled workers – both factors that drive market concentration.

The 2025 German real estate market report is available in both German and English. All current reports can be downloaded from our website (on **www.dzhyp.de/en/about-us/market-research/**).

Yours faithfully,

DZ HYP

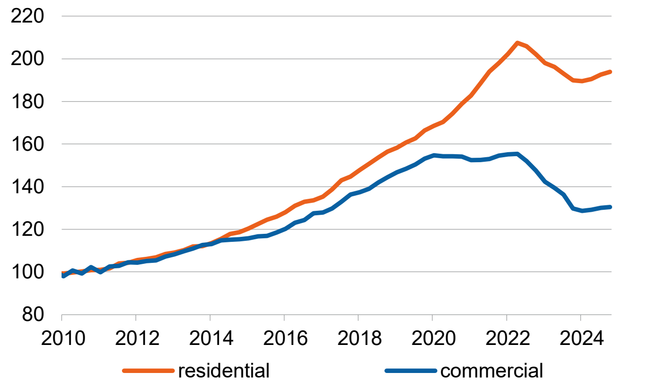
March 2025

SUMMARY

The 17th issue of our market report shows that although conditions remain challenging in the real estate market, the outlook has brightened

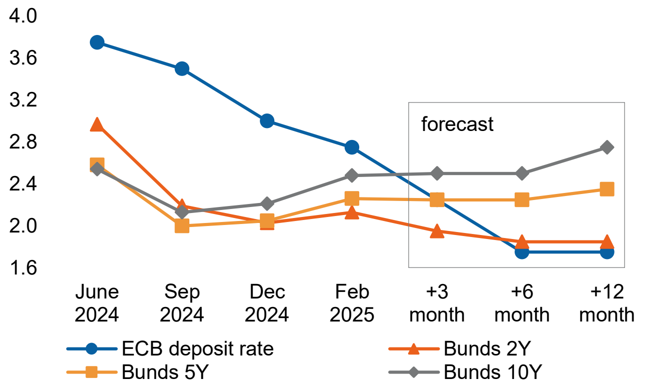
- A number of negative factors have proved challenging for the real estate market in recent years, leading to a sharp decline in valuations. The motto "Survive till '25" has not only helped the market through the crisis, but has also proved accurate since the correction came to an end in 2024. Higher interest rates, climate investment and the structural change caused by home working and e-commerce have now been priced in. Real estate investment - which has declined sharply - could also pick up pace again gradually in 2025 with the prospect of several interest rate cuts by the ECB.
- However, conditions remain fragile for commercial real estate, partly due to the ongoing economic slowdown. Potential risks include further funds outflows from open-ended real estate funds and unfavourable rental prospects for many older commercial properties. Modernization is also being hampered by financing constraints due to a decline in valuations, higher interest rates and potential vacant properties.
- Residential properties offer the best prospects, not only because there is already a housing shortage and the construction crisis is restricting supply even further. Unlike companies which can successfully manage their business with less office or shop space, people need living space. Even apartments in less attractive locations or with obvious deficiencies can still be easily let, while concessions have to be made to potential tenants for commercial real estate outside the small segment of modern and sought-after space.
- Residential rents show consistently strong growth, whereas retail rents have at best stopped falling, and the office market is characterized by an increasing number of vacant properties. In this respect, it could also gradually become more difficult to achieve significantly higher rents in the prime segment.
- However, there is potential in all segments of the real estate market. Premises are needed for working, to sell products, or for housing, and are correspondingly in demand. The prospects are particularly good in the seven largest cities: **Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart**. This is reflected in the **17th issue of our market report on the leading German real estate locations**. As usual, we focus on the office, retail and residential market segments.

Wide divergence in valuations of residential and commercial properties
Property valuations, 2010 = 100



Source: vdp

Falling interest rates – but only at the short end – intensify tailwind for the property market in 2025
Deposit rate and bond yields, in %



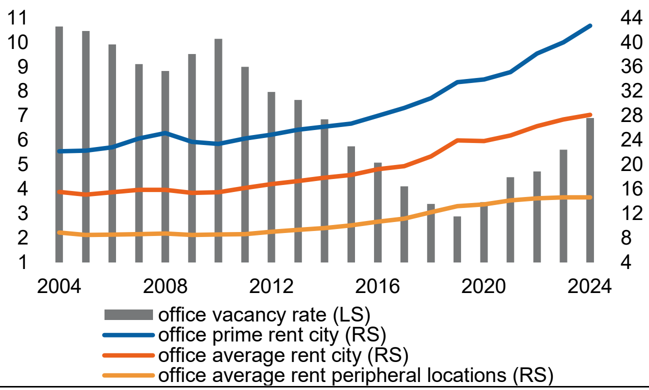
Source: Bloomberg, DZ BANK Research forecast Per: February 2025

Overview of segment-specific outlook

Trend in office, retail and residential property becoming increasingly heterogeneous

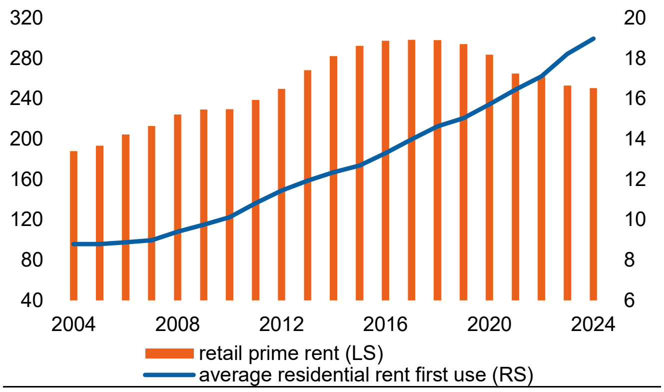
Until a few years ago, rents in the three market segments we have reviewed – office, retail, and residential – were increasing, but at different rates. Conversely, the current trend is much more heterogeneous, because key factors of influence have altered significantly. As a result of e-commerce and the "New Work" concept, demand for office space and retail outlets has generally contracted on the one hand, while on the other hand the demand profile has altered permanently. Space needs to be attractive and sustainable. While a shift in demand is the main factor for the commercial real estate market, demand is outpacing supply in the residential market because of immigration and demographic change. The construction crisis is restricting the supply further. Below the line, rents diverge, not only between, but to some extent also within the various market segments. Moreover, the individual real estate locations are even more heterogeneous than in the past. The top locations covered in this report are generally the best performers.

Office: New Work drives up vacancies and widens the gulf between sub-markets
LS: vacancy rate in %, RS: rents in EUR/m² (top locations only)



Source: bulwiengesa

Retail and residential: E-commerce weighs on retail rents, while rents in the strained housing market are rising dynamically
each axis: rents in EUR/m² (top locations only)



Source: bulwiengesa

Retail:
Top locations show strength under weak market conditions

There is no end to the negative factors for city centre retail. Although the pandemic is over, the hoped-for subsequent recovery has failed to materialize. Inflation, which surged to nearly 10 per cent about two years ago, significantly dented real incomes, forcing private households to tighten their belts. In addition to the aftermath of inflation, geopolitical flash points, climate change and the economic crisis are having an unsettling effect on consumers. As a consequence, private consumption is not gaining momentum although real incomes are now very positive again.

Prime rents in top locations likely to remain stable in 2025

As a result, city centre rents fell again last year. However, the top locations, which are attractive for retailers, have shown an above-average performance. Despite high rent levels, by 2024 the 16 per cent decline in prime rents from their peak levels in the top locations was much less marked than for rents in regional centres, which fell by around a quarter. The prospects for the top locations are also better. Many retailers have thinned out their branch networks and are focusing on fewer locations. The top locations with high purchasing power, catchment areas of millions of people, and strong tourism are usually top of the list here. Combined with a revival of interest in city centre sales space, the decline in rents is likely to have been absorbed. Prime rents should remain stable at around EUR 250 in 2025.

**Office:
WFH and economic slowdown hit office rentals**

The contraction in demand for office space as a result of the "New Work" concept and the impact of working from home (WFH) have clearly weighed on office rentals. Since 2020, relatively low take-up has been accompanied by steady growth in vacant office space. The vacancy rate has more than doubled since 2019 from less than 3 to a good 7 per cent. Thanks to generally still moderate vacancy rates, rents have not fallen sharply, although trends diverge between the various market segments. Companies are seeking centrally located, modern space, which can facilitate the important communications tools needed for New Work and can also demonstrate good sustainability. However, this type of space is in short supply and rents are high because of the sharp hike in construction costs. Relocation to smaller office premises enables companies to counteract the excessive rise in the cost of space.

Prime rents may rise further despite increase in vacant properties

Conversely, the supply and demand ratio is less favourable for office locations and space which do not meet the required criteria. This is also the main area where the volume of vacant properties is increasing. Accordingly, the gulf in office rents has widened significantly. On average, prime city centre rents in the top locations have risen steeply to nearly EUR 43 per m². Conversely, average city centre rents have increased much more slowly, and are even stagnating in peripheral areas of the office market. The economic outlook for 2025 shows few glimmers of hope, and the trend in the office market we have described is therefore likely to persist.

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

For a long time, housing markets in the top locations have been at the top of the rent trend. However, the housing shortage originally responsible for this is now a nationwide problem in the German housing market, to which politicians have not yet found a satisfactory solution. Although the pace of rents has now reached a high level throughout the whole country, the top locations are nevertheless the frontrunners. Given the steady growth in rents over many years, absolute rent levels are extremely high here. Cold rents – measured in m² – climbed to a good EUR 15 for re-lets in 2024, and to nearly EUR 19 for first occupancy. The growing divergence here compared to existing rents which are only increasing slowly is particularly marked. Relocation is not an attractive option, and this is further aggravating the shortage of rented properties.

The further deterioration in the crisis affecting new construction in 2024 also means that the number of apartments completed in the years ahead will be significantly lower. Rent growth in the top locations therefore looks set to continue unchecked in 2025.

Overview of rent trends in top locations

	Retail prime rent change in %					Office prime rent change in %					Multi-family average rent first use change in %				
	10 years 2014-2024	5 years 2019-2024	2023 yoy	2024 yoy	2025e yoy	10 years 2014-2024	5 years 2019-2024	2023 yoy	2024 yoy	2025e yoy	10 years 2014-2024	5 years 2019-2024	2023 yoy	2024 yoy	2025e yoy
Berlin	-12,1	-15,0	-3,8	0,0	0	95,7	15,4	2,3	1,1	2	74,3	41,7	10,5	3,7	4
Cologne	-12,5	-17,6	-2,3	-2,3	0	57,1	34,7	16,4	3,1	3	43,0	22,6	6,2	5,2	4
Düsseldorf	3,8	-5,3	-1,8	0,0	0	75,0	58,5	11,1	16,3	3	27,0	18,3	7,1	3,3	4
Frankfurt	-10,0	-13,0	-3,6	-1,5	0	35,7	15,9	2,2	3,3	6	42,7	16,1	1,7	5,6	5
Hamburg	-14,5	-17,5	-5,0	-1,1	0	44,1	21,7	2,4	2,3	3	34,4	22,2	5,0	4,8	5
Munich	-8,6	-13,9	-3,2	-2,6	0	61,2	36,7	4,5	16,1	3	53,7	15,7	3,8	4,1	4
Stuttgart	-18,8	-17,0	-2,5	0,0	0	81,6	50,0	7,1	15,0	3	57,1	10,7	1,2	2,3	4
Top locations	-11,2	-14,8	-3,6	-1,0	0	63,5	27,8	4,8	7,1	3	53,5	26,2	6,5	4,1	4

Source: bulwiengesa, DZ BANK Research forecast

ECONOMIC CONDITIONS IN GERMANY

Growth in German economy will remain weak in 2025

2024 was a disappointing year for the German economy. Exports suffered as demand remained weak. The aftermath of the wave of inflation was very unsettling for consumers. GDP (-0.2 per cent) therefore fell for the second year in succession. No significant improvement is expected in 2025. Anticipatory effects for exports ahead of expected higher US tariffs are likely to lead to a sharper increase in GDP in the first half. However, we expect tariffs to weaken exports and investment over the year.

End of "traffic light" coalition leads to political stalemate, but early change of government creates potential for economic tailwind

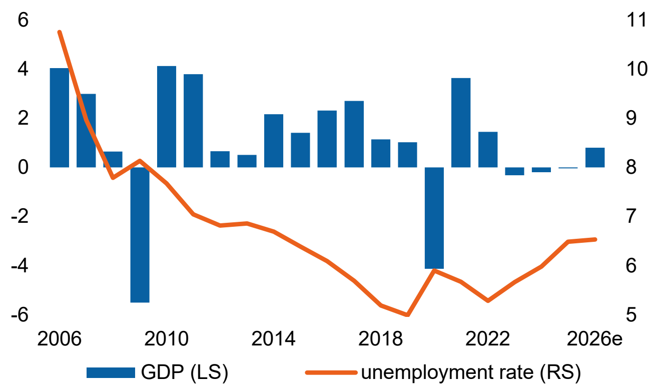
The collapse of Germany's governing "traffic light" coalition in autumn 2025 has brought forward the Bundestag elections to February. The interim period until the new government takes office means several months of political stalemate for the German economy which faces numerous problems and challenges. On the other hand, there is a chance that the new government will be able to inject fresh economic impetus with the relief measures outlined in election manifestos.

Services and CO_2 prices likely to keep inflation slightly above ECB target in 2025

German consumer prices increased again slightly more sharply at the end of 2024. Price pressure is likely to have remained elevated in January. This is mainly attributable to services, one factor being the price hike for the Deutschlandticket (for public transport within Germany), and higher insurance premiums. The CO_2 levy on fossil fuels also increased at the beginning of 2025, and is driving up energy costs. Price pressure is likely to weaken over the course of 2025, because slower economic growth will ease the pressure on wages. EU counter-tariffs in response to possible US tariffs could however lead to an increase in inflation. Overall, we expect an inflation rate of 2.3 per cent in 2025 compared to 2.4 per cent in 2024.

Economic weakness brings only a slight rise in unemployment

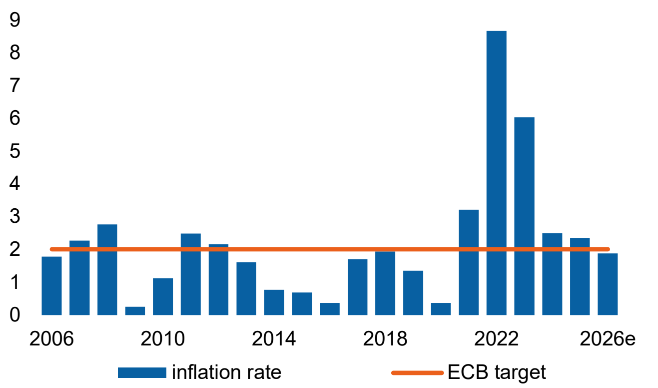
LS: GDP in % vs. prev. yr., Rs: unemployment rate in %



Source: Eurostat, DZ BANK Research forecast Per: February 2025

Inflation rate broadly back in line with ECB target of 2% after rising sharply

consumer price trend in per cent vs. prev. yr. (HICP)



Source: Eurostat, DZ BANK Research forecast Per: February 2025

CONSTRUCTION ACTIVITY IS SLOWING DOWN SIGNIFICANTLY

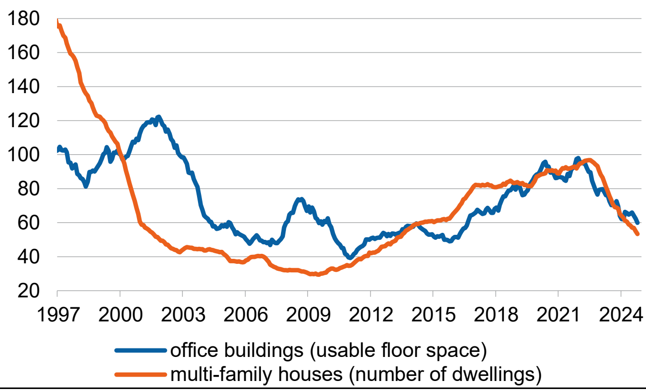
Higher construction and financing costs halt new building with …

A rapid hike in construction costs and interest rates is hitting the capital-intensive real estate sector. As a result of the much heavier cost burden, the construction of new residential and commercial properties barely pays off even if rents rise sharply. Housing associations in particular often lack the funds for new build projects given higher operating costs for existing housing stock and associated energy-related renovation.

… far-reaching consequences for market supply, construction companies and public coffers

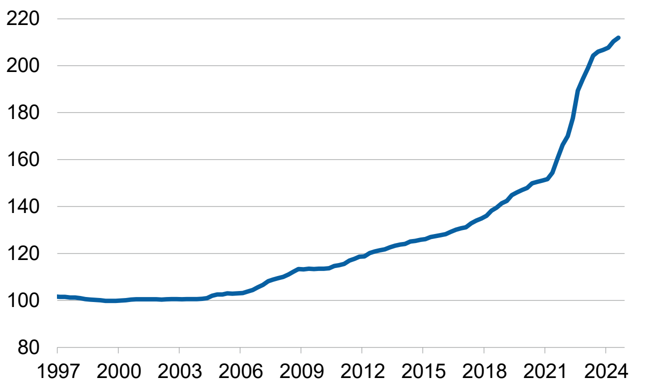
Despite high demand for housing and modern commercial property, this is leading to a steep decline in new building permits. The number of completions is therefore expected to fall sharply in 2024 and thereafter. More than half of the construction companies active in this area report a lack of orders. Capacity utilization at construction companies has also fallen rapidly. This is having far-reaching consequences which extend beyond the supply of new properties. On the one hand, the already weak economy is suffering because new construction - which was flourishing until recently - is no longer stimulating macroeconomic growth, but is causing it to slow. On the other hand, there is a significant shortfall in public revenues. If skilled workers leave the construction sector, it will also be more difficult to scale up new building again.

Building permits for residential and office premises fall sharply
index for building permits, 2000 = 100



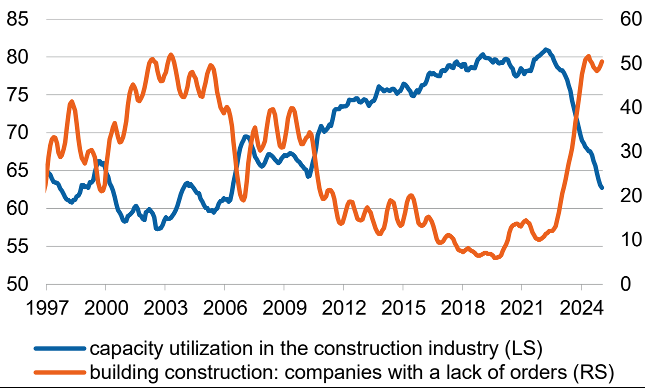
Source: Eurostat

Construction costs continue to rise, but at a slower rate in 2024
construction cost index, 2000 = 100



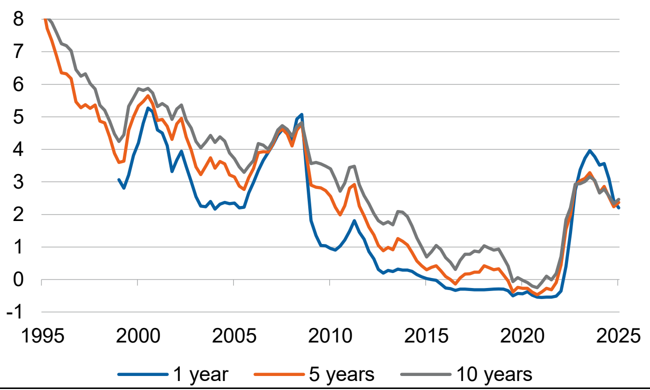
Source: Destatis

Construction companies: Lack of orders and low capacity utilization
LS: utilization in %, RS: proportion of "Yes" responses in %



Source: ifo Institute

Capital-intensive real estate sector suffers from higher interest rates
Euro-swap rates for different maturities, interest rates in %



Source: Oxford Economics

SPECIAL TOPIC: HOTEL REAL ESTATE IN GERMANY

New trend-setting brands transform the hotel market

Germany is a holiday destination as well as an industrial location

Made in Germany – Germany's image is closely connected with industry. Names like Bosch, Daimler, Porsche and Siemens are known globally. However, Germany is also a holiday destination. Although tourism is not as important as in Italy or Spain, it still plays an important role for the economy. The tourism sector generates around 500 million overnight stays each year and a good EUR 125bn of gross value-added, as well as nearly 3 million jobs. Although the steady upward trend in tourism was brought to an abrupt halt by the pandemic, the sector has recovered again quickly thanks to the enthusiasm for travel in Germany and abroad. It also became evident quickly that online business meetings via teams and Webex cannot replace a personal conversation with customers or suppliers.

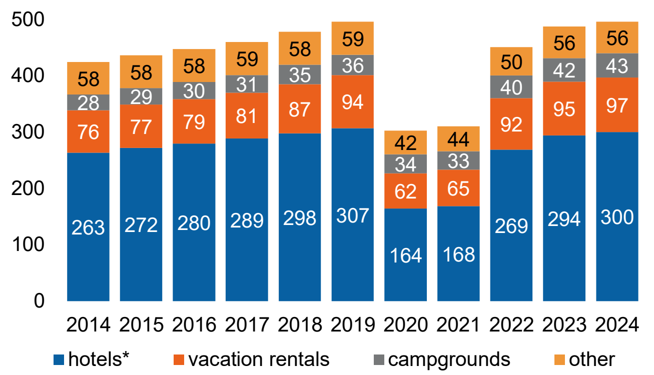
Hotel market growing – and evolving: more beds, but fewer hotels

As well as an increase in the number of overnight stays, a major shift has also taken place in the hotel business. Instead of making reservations via the Varta guide or by telephone, hotels can be easily booked on portals such as Booking.com or HRS.com and via internal company systems based on negotiated hotel rates and travel cost guidelines. However, the hotel offer has also changed. While the number of beds has grown in line with the volume of guests, the number of hotel businesses has contracted. Fifteen years ago, a hotel had on average around 60 beds, compared to about 90 today. Established hotel brands have also been supplemented with many hotels of a modern design, which often have a good price-performance ratio similar to B&B hotels or motels.

Hotel brands evolving: B&B hotels are in the lead and are growing strongly

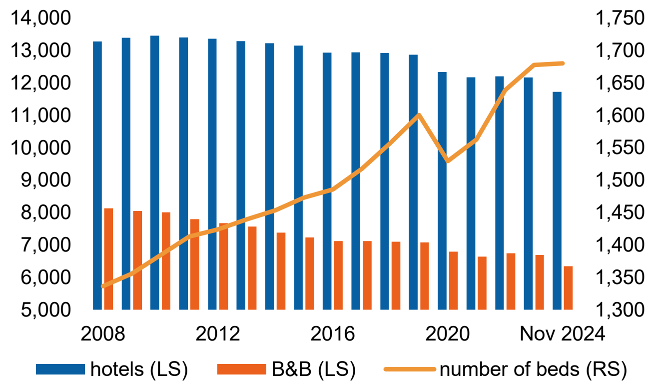
The most widespread hotel brands in Germany are dominated by the lower (budget, economy) and medium (midscale) price segments, while, as expected, there are fewer hotels in the upper price segment (upscale). Hotel brands are also changing rapidly. While some brands reduced the number of their hotels from 2022 to 2023, others have grown strongly. The number of hotels has grown significantly, particularly in the B&B segment, at the now insolvent Achat Group, Premier Inn, Arthotel and Moxy. B&B hotels are also in the lead – based on the number of businesses – with 165 hotels (2023). Best Western lies in second place with 151 hotels, while Mercure is third with 94.

Hotel overnight stays in 2024 will not quite reach 2019 levels
overnight stays in Germany by type of business in millions



Source: Destatis * incl. bed and breakfast, guest houses and inns

Strong growth in no. of hotel beds, but fewer hotel businesses
L: No. of hotels, R: No. of hotel beds in '000



Source: Destatis

Structure in the German hotel market

Germany has 19,000 hotel businesses with a total of 1.7m beds

Around 19,000 hotel businesses were operating in Germany in 2023, compared to 21,400 in 2008. Conversely, overnight capacity increased by 25 per cent to nearly 1.7 million beds in this period. Around a third of hotels are run on a bed & breakfast basis, with no other meals provided. Concentration in the hotel market is fairly low, but is increasing due to the growing activity of hotel chains. Accor – whose brands include ibis and Mercure – is the company with the highest turnover. With around 340 hotels and approximately 47,000 beds, this represents a proportion of 3 per cent of total overnight capacity. The 25 leading hotel brands, which have approximately 1,300 beds, account for around 7 per cent of all hotel business. While private visitors account for the lion's share of overnight stays in tourist regions, business travel plays a much more significant role for the hotel business in large cities.

Hotel market dominated by leasing contracts – leases can be fixed or performance-related

Various contract structures can be used to operate hotels. One option is letting the property. However, the most common method in Germany is leasing to the hotel operator. Here the hotel property, with furniture and fixtures, is provided as a largely ready-to-operate hotel. Contracts are mainly long-term (ten or more years) with an extension option. The operator bears the risk of the hotel operation. In contrast to other countries, management contracts play a less important role in Germany. Here the operator is paid a fee by the property owner to run the hotel. Hybrid contract structures consisting of a combination of leasing and management contracts are becoming increasingly common, for example in the form of a revenue or performance-based lease. These enable the potential, risks and co-determination rights to be split between the property owners and operators within the hotel business. This means that investors can arrange their participation in the hotel business based on their market expertise.

Leading hotel brands in Germany (2023)

Rank	Brand	Brand owner	Segment	Number of hotels 2023	Number of hotels 2022	Change 2023 vs. 2022
1	B&B Hotels	B&B Hotels	Budget	165	151	+14
2	Best Western	BWH Hotel Group Central Europe	Midscale	151	154	-3
3	Mercure	Accor	Midscale	94	98	-4
4	Ibis	Accor	Economy	81	84	-3
5	Ibis Budget	Accor	Budget	74	75	-1
6	Motel One	Motel One	Economy	59	56	+3
7	Leonardo	Fattal Hotel Management	Midscale	56	54	+2
8	Holiday Inn Express	InterContinental Hotels Group	Economy	52	46	+6
9	NH	NH Hotel Group	Midscale	50	53	-3
10	Premier Inn	Premier Inn Hotels	Economy	47	36	+11
11	Achat	Achat Hotel- und Immobilienbetriebsg.	Midscale	45	31	+14
12	Dorint Hotels & Resorts	Dorint	Upscale	42	42	0
13	IntercityHotel	Deutsche Hospitality	Midscale	40	38	2
14	Ibis Styles	Accor	Economy	38	41	-3
15	Novum	Novum Hospitality	Indifferent	38	43	-5
16	The Niu	Novum Hospitality	Economy	35	31	+4
17	Dormero	Dormero Hotel	Midscale	30	28	+2
18	Holiday Inn	InterContinental Hotels Group	Midscale	29	30	-1
19	Arthotel	Gergeous Smiling Hotels	Midscale	28	21	+7
20	Moxy	Marriott International	Economy	28	22	+6
21	Trip Inn	Trip Inn Management & Service	Indifferent	27	26	+1
22	A&O Hotels and Hostels	&O Hotels and Hostels Holding	Low Budget	25	25	0
23	H+ Hotels	H Hotels	Midscale	25	25	0
24	Maritim	Maritim Hotelgesellschaft	Upscale	24	24	0
25	Steigenberger Hotels & Resorts	Deutsche Hospitality	Upscale	24	25	-1

Source: PKF hospitality

Franchising is an extension of the leasing relationship. Well-known hotel chains are gaining ground, particularly in cities. The hotel business benefits from the appeal of the hotel brand and its marketing expertise, an integrated booking system and centralized purchasing. There is the additional advantage of a comprehensive business concept with standards relating to fixtures and furnishings and the design of the hotel as well as established processes. In order to participate, the operator concludes a franchise agreement with the respective hotel chain. By using the franchise model and an operator, hotel chains also avoid signing leasing agreements at unfavourable balance sheet terms.

From franchising to hotel brand: hotel chains gaining ground

Trend in hotel market: Costs rising faster than revenue

The upward trend in overnight figures, strong revenue growth and the increasing importance of holiday travel within Germany signal a positive trend in the hotel market. This impression is strengthened further by significant hikes in room prices for hotel bookings. However, market conditions for hotel businesses remain challenging. This is borne out by the insolvencies of the Achat Group in November 2024, followed by Lindner Hotels a few weeks later. There have also been insolvencies in the portfolio of hotel operator RIMC, which runs the new Hamburger “Bunker hotel”. The reasons for this are the post-pandemic staff shortage and high cost increases. From 2022 to 2024 staff costs increased by more than 30 per cent. Contributory factors are negotiated wage agreements, but also the higher minimum wage, which increased from EUR 9.82 per hour (2022) to EUR 12.41 (2024). At the beginning of 2025 the minimum wage was raised by a further 41 cents per hour. However, much higher food and energy prices are also weighing on hotel operators.

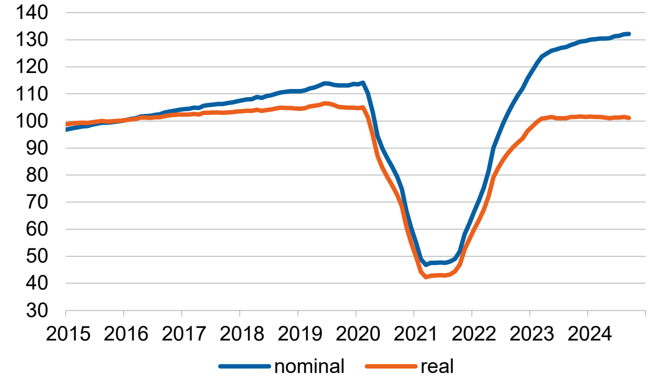
Staff, food and energy costs have risen faster than revenue

Ranking of hotel companies in Germany based on revenue (2023)

Rank	Hotel company	Net revenue in EUR m	Number of businesses	Number of rooms	Room occupancy in %	Net room price in EUR	Revenue per room in ‘000 EUR
1	AccorHotels	1,430,0	336	47,181	-	-	30.3
2	Marriott International	1,013,3	113	24,218	63	151	41.8
3	Intercontinental Hotels Group	933	96	18,623	-	-	50.1
4	Best Western Hotels	727	187	20,074	66	86	36.2
5	GCH Hotels Group	559	-	-	-	-	-
6	Motel One	552	62	17,930	71	104	30.8
7	H-Hotels	547	-	-	-	-	-
8	Steigenberger Hotels	515	-	-	-	-	-
9	HR Group	495	113	17,558	61	101	28.2
10	Hilton	455	-	-	-	-	-
11	Event Hotels	453	-	-	-	-	-
12	Dorint Hospitality & Innovation	391	55	9,398	60	125	41.6
13	B&B Hotels	385	182	19,384	66	80	19.8
14	Maritim Hotelgesellschaft	377	25	7,645	68	120	49.3
15	Novum Hospitality	372	118	15,959	70	81	23.3
16	NH Central Europe	346	52	10,227	-	-	33.8
17	Radisson Hotel Group	316	-	-	-	-	-
18	Leonardo Hotels	311	56	10,107	76	106	30.8
19	Center Parcs	235	6	-	77	183	-
20	Kempinski	206	-	-	-	-	-
21	Premier Inn	202	53	9,567	-	-	21.1
22	Hyatt Hotels Corporation	191	-	-	-	-	-
23	Meliã Hotels	172	24	4,341	63	135	39.7
24	DSR Hotel Holding	171	14	2,145	69	184	79.5
25	Lindner Hotels	167	23	1,496	59	127	111.7

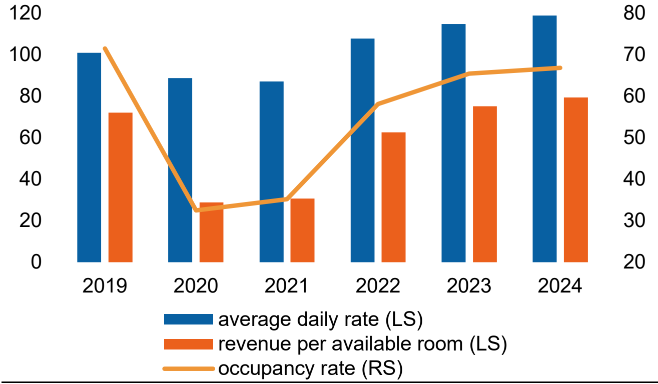
Source: ahgz

Overnight revenues stagnating in real terms for about 10 years
revenues of hotels and guesthouses, 2015 = 100



Source: Destatis

Room prices and capacity utilization both picking up
LS: in EUR, R: in % (in each case throughout Germany)



Source: ahgz/CoStar

Many hoteliers are also complaining about bureaucracy. On closer inspection, revenue figures are also stagnating. Although hotel revenues (excl. B&B hotels) have risen by 12 per cent to EUR 24bn since 2019, this growth is essentially attributable to price increases. Adjusted for inflation, revenues of hotels and guesthouses are currently at around 2015 levels. Although revenue did grow sharply when the hotel business resumed post-pandemic, it has been stagnating in real terms since the beginning of 2023.

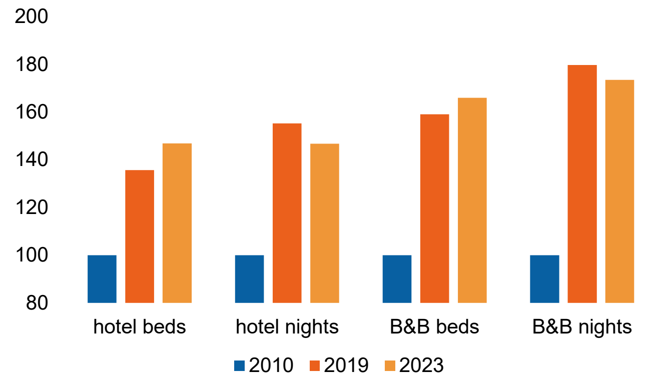
Price hikes associated with stagnating real revenue figures

Market trend top-7 locations

Hotels in top locations are facing the same challenges as the sector as a whole. However, these hotels are benefiting from a particularly strong recovery in guest numbers. As in some other large cities, the European Football Championship had a positive impact here too. Room demand was also boosted by events featuring international megastars such as Taylor Swift, Adele and Coldplay, the main positive impact of which will be reflected in figures for the second half of 2024. However, the hotel business was already performing very well in the first half of 2024 year-on-year. Both capacity utilization of hotel rooms and room prices grew consistently, and revenue per room increased in all the top locations. B&B hotels, which include successful budget/economy hotels, performed particularly well.

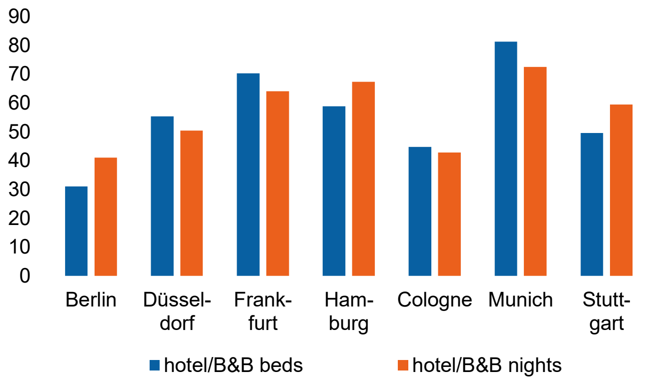
Hotel business in large cities boosted by 2024 European Football Championship and international megastars

B&Bs (budget/economy hotels) performed better
beds/overnight stays, 2010 = 100 (top locations)



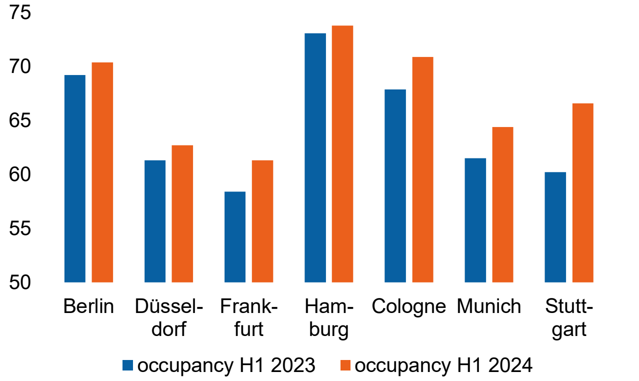
Source: bulwiengesa

Broadly parallel growth in beds and overnight stays
change from 2010 to 2023 in %



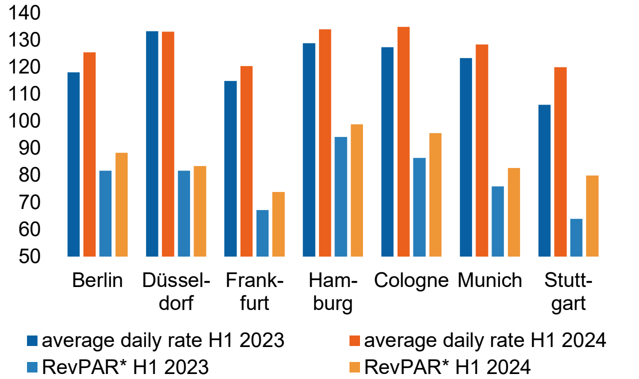
Source: bulwiengesa

Major differences in room occupancy rates in top locations
room occupancy, in %



Source: ahgz/CoStar

All top locations reported increasing revenue per room in 2024
prices and revenue per room, in EUR (resp. for the first half)



Source: ahgz/CoStar *) RevPAR = revenue per available room

However, the tourism boom in large cities has also driven forward a whole series of hotel projects, and the number of hotel beds has therefore continued to increase in recent years. The expansion of overnight capacity has essentially moved in parallel to the increase in overnight figures. The hotel offer is not nevertheless expected to continue to grow. Virtually no new hotels are likely to be added in the coming years given the steep downturn in project development.

Hotel capacity and overnight figures grow more or less in parallel

However, the previous upward trend in overnight stays could also suffer a setback. The continuing economic slowdown and weakness in important sectors of industry may brake travel activity as company costs are squeezed and labour market conditions worsen. Travellers might also increasingly opt for low-cost options – partly because hotel prices are rising anyway.

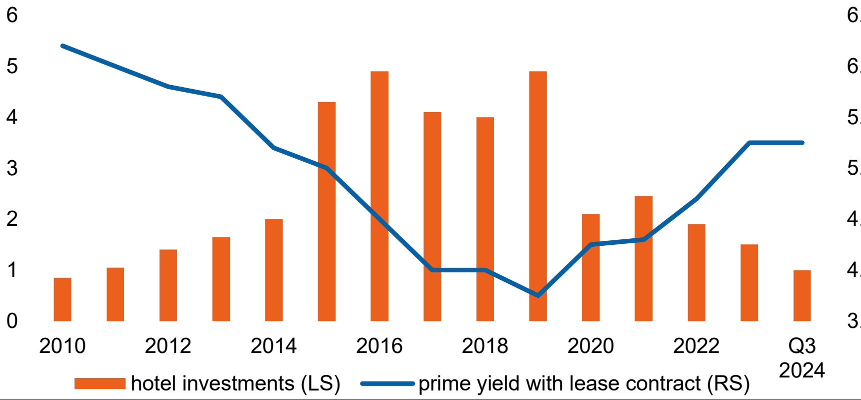
**Economic downturn could slow down
the travel market**

Investment market

Investments in German hotel real estate have plummeted due to the pandemic. However, the subsequent rise in interest rates and capital market yields did not lead to a further decline in the investment volume. The peak yield has increased by a good 150 basis points since 2019. However, investment has failed to recover so far.

Hotel investment slumped in the pandemic

Hotel investment market has not picked up again so far
LS: investment volume in EUR bn; RS: yield in %



Source: CBRE

As in the previous year, the figure is likely to be EUR 1.5bn in 2024. The 60 or so transactions reported by CBRE up to the third quarter of 2024 had an average size of EUR 17m. Most of the transactions were in the value-added segment.

Boundaries between hotels and temporary housing are fluid

Hotels and temporary housing are both of interest to investors. There is a positive trend in both tourism and demand for temporary housing concepts, which are not subject to the regulatory restrictions which apply to ordinary apartments. Hotel concepts also provide potential for the conversion of existing properties, e.g. for office buildings which do not meet current criteria for office tenants, but which are not old enough to demolish. This gives hotel chains access to properties in preferred locations without the need for expensive and uneconomic new construction. Investor interest is likely to focus on top locations and other large cities with high volumes of tourists and business travellers and many long-distance commuters.

Current trends in the hotel business

Young lifestyle hotel brands in the ascendancy

The shift taking place in the hotel market, with a growing differentiation of hotel brands from modern budget concepts to trendy boutique hotels, is likely to continue. Hotel chains are developing new brands to meet changing customer demands, with design and offer geared to specific target groups, for example by providing a vegan breakfast, bike rental or a hotel bar. Within the brands, hotels are sometimes relocated to other more attractive premises in the particular location. The “regeneration” of the hotel offer with modernized properties and new brands is likely to lead to a further contraction in the number of hotel businesses. Traditional, family-run businesses in particular are in retreat. They often lack the access to capital needed for investment. Nor do they benefit from the cost advantages enjoyed by chains.

Less staff needed for serviced apartments

The supply of overnight accommodation is also shifting towards new concepts for serviced apartments – a segment of the hotel market which is likely to continue to grow. This type of accommodation differs from a classic hotel by virtue of its larger bedrooms, limited provision of services (essentially room cleaning) and is geared to longer stays. The labour shortage and rising wages have less impact here because fewer staff are needed.

Conditions remain challenging: Need for flexibility and adaptability

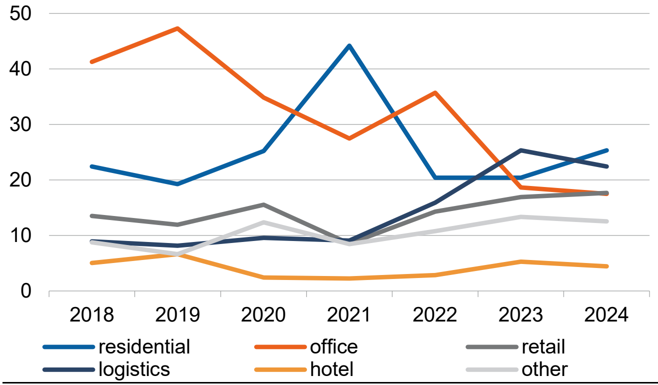
Other developments are sustainable business concepts and – similar to retail, and bars and restaurants – a staff shortage and a cost squeeze. One approach is to extend digitalization, with increasing use of mobile check-in and digital keys, although this can have an impersonal effect on the guest and its use is therefore limited. Employee loyalty and attractive working conditions are important, particularly given the antisocial hours worked in the hotel business. A high degree of flexibility and adaptability is important for hoteliers and hotel chains in a challenging market environment. Hotel properties are likely to continue to show a comparatively stable performance based on robust demand for overnight accommodation, investor interest in the asset class and the meagre supply of new-build properties.

TURNAROUND IN REAL ESTATE INVESTMENT?

Investment volume picks up again at low level at end of 2024
real estate investment volume in EUR bn

Source: CBRE

Some segments of asset classes show marked shift over time
proportion of total real estate investment in %



Source: CBRE

Major shift in climate for real estate investment

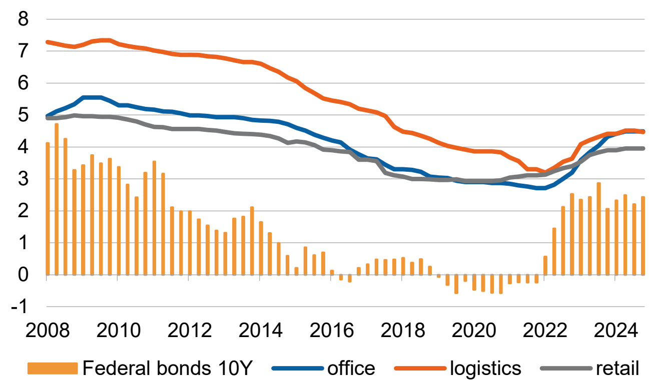
The marked rise in capital market yields, the shift in demand caused by home working and online shopping, and not least the ongoing weakness of the German economy, have clearly left their mark on real estate investment. In addition to significantly lower investment volume, there has been a major shift in the market shares of the various asset classes. Offices, which long dominated, now lag behind residential and logistics premises, while retail has picked up again slightly. However, there are now signs of the trend reversing towards a market recovery.

Real estate market shows gradual recovery

Asset class valuations diverge widely

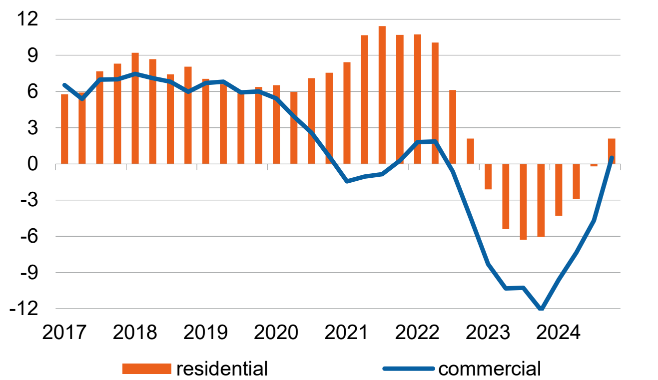
The visible recovery in real estate investment in the last quarter of 2024 was partly attributable to the further decline in interest rates. As a result of the downward inflation trend, the ECB is gradually cutting interest rates again after ten successive hikes. Below the line, real estate investment increased to EUR 34bn in 2024 – compared to EUR 28bn in the previous year. Rental yields have stabilized at a much higher level. Valuation corrections have also come to an end. Prices of multi-occupancy homes are even increasing again. However, valuations diverge very widely. Despite the correction, and in contrast to retail properties, offices, and particularly multi-occupancy homes are much more expensive today than in 2010.

Rental yields stabilize after increasing sharply
initial rental yields and bond yields, in %



Source: bulwiengesa, Macrobond

Valuation correction in real estate market clearly at an end
real estate prices, in % yoy

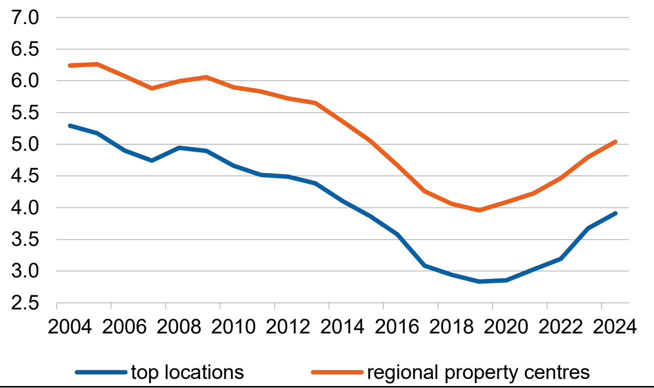


Source: vdp

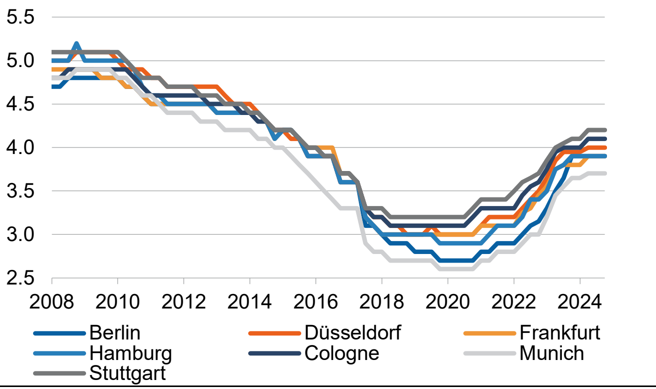
In the seven top locations, the correction has been particularly marked for offices and multi-occupancy homes, and the yield divergence has narrowed compared to regional centres. The initial rental yield for premium office properties in the top-7 has increased from 2.7 per cent (2021) to 4.5 per cent, which is around half a per centage point higher than for high-value retail properties. The average rent multiplier – purchase price based on net annual rental income – for multi-occupancy homes in the top locations has declined sharply from 34 (2022) to 24 (2024). However, the reduced level is still not low, since rent multiplier figures were less than 16 before 2010.

Offices and multi-occupancy family homes undergo a sharp correction in top locations

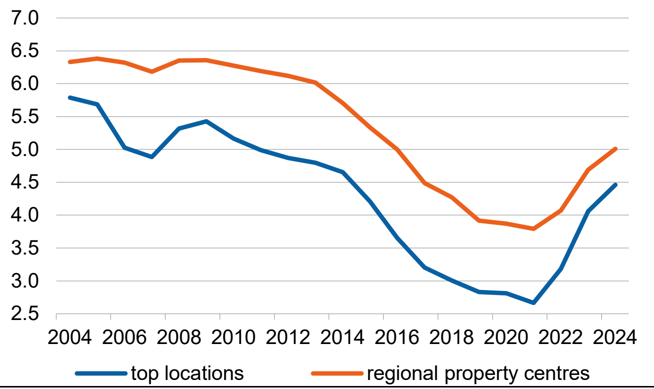
Retail: Trend in initial rental yield
net initial yield in central retail locations, in %



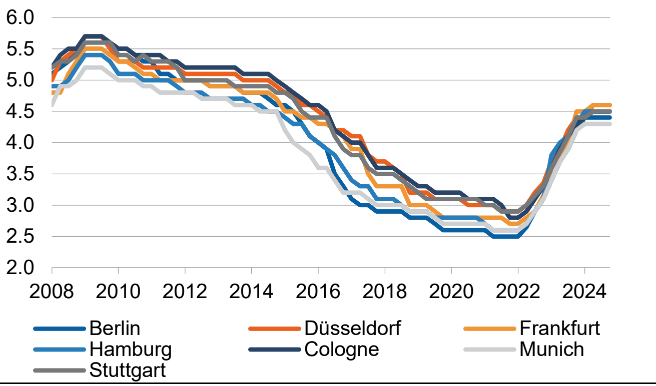
Retail: Yield trend for individual top locations
net initial yield in central retail locations in %



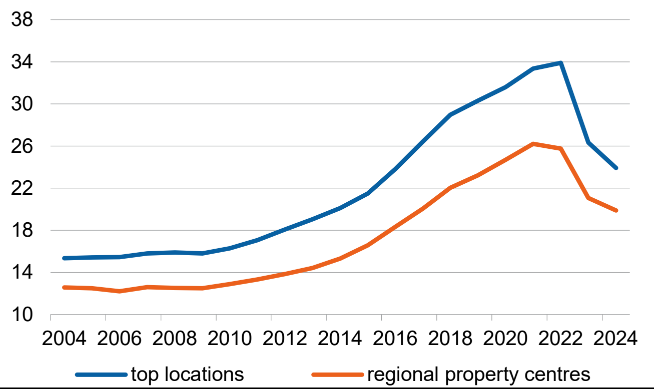
Office: Trend in initial rental yield
net initial yield in central office locations, in %



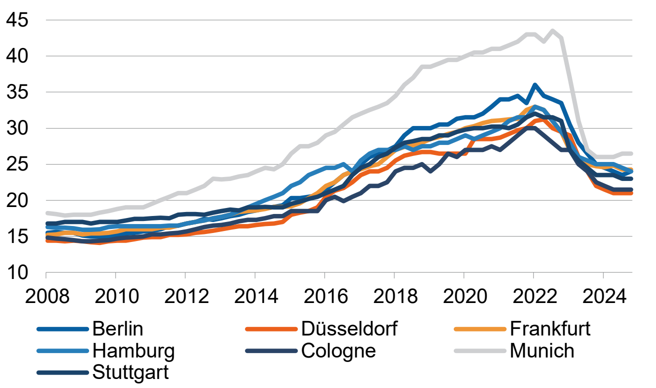
Office: Yield trend for individual top locations
net initial yield in central office locations in %



Residential: Rent multiplier for multi-occupancy homes
average rent multiplier



Rent multiplier for 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-occupancy 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 centres (Augsburg, Bremen, Darmstadt, Dresden, Essen, Hannover, Karlsruhe, Leipzig, Mainz, Mannheim, Münster and Nuremberg)

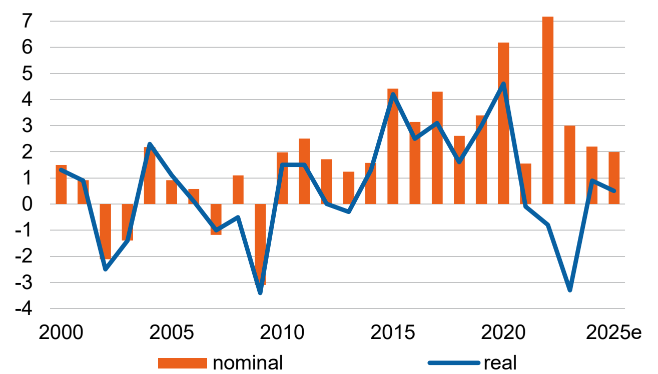
RETAIL PROPERTIES

Germans still reluctant to shop

First inflation, now economic crisis: No post-pandemic recovery in city centre retail

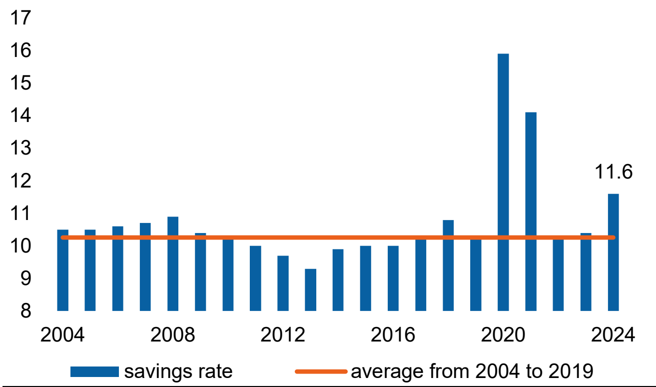
The Covid pandemic is no longer having an adverse impact on the retail sector. However, the hoped-for strong recovery in city centre retail has failed to materialize. Inflation – which surged to nearly 10 per cent about two years ago – led to a visible decline in real incomes, forcing private households to tighten their belts. The after-effects are still being felt. Geopolitical flashpoints, climate change, the ongoing economic crisis, and job losses in industry are also continuing to have an unsettling effect. Consequently, private consumption is not gaining momentum despite the fact that real incomes are very positive again. The increase in the savings rate to a high level shows that households are opting to hold on to their money. This is a major cause of concern for the retail sector. In this year's HDE economic barometer, consumer restraint is the main issue facing retailers.

Trade only appears to be growing because rising prices are eroding the increase in sales
retail sales, in % yoy



Source: HDE, Eurostat

Concerns about the future reflected in historically relatively high savings rate
savings rate, in %



Source: Destatis

Weak consumption particularly bad news for city centre retail

However, the weakness of the retail sector is not immediately evident, since sales have grown strongly in recent years. Growth has nevertheless been solely attributable to rising prices, while sales have fallen in real terms. The sharp fall in inflation towards the ECB's two per cent target has at least halted the real decline in sales, albeit only for the retail sector as a whole. Consumer restraint is having a bigger impact in city centres. Because households can make only limited savings on everyday necessities and are reluctant to stop travelling, the impact is greater for city centre retail, already weakened by e-commerce. This is reflected in textile sales which have clearly underperformed the retail sector as a whole.

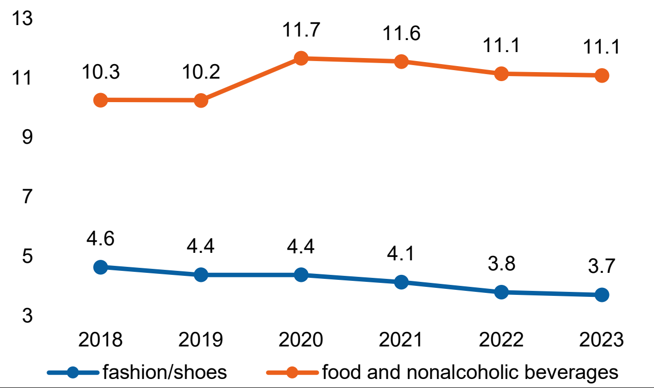
New competition from Chinese low-cost shippers

Booming low-cost suppliers from China such as Temu and Shein are making life even more difficult for retailers. They use their large advertising budgets and finely tuned social media presence on platforms such as TikTok to attract mainly younger consumers. They also benefit when budgets are tight with their cheap products. Their success is clearly not diminished by a lack of consumer protection and often low product quality. Instead of focusing on sustainability, customers are being directed towards "throwaway consumption".

No end to insolvencies: Conditions remain precarious in fashion retail despite sales growth

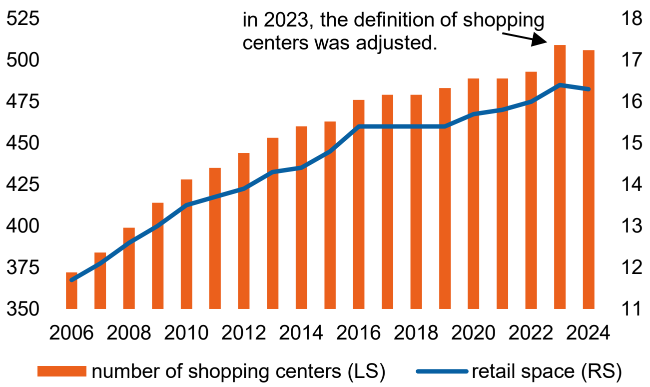
Although embattled fashion retailers gained ground slightly in 2024, conditions remain strained. On the one hand, fashion sales are still down by around 10 per cent from their 2015 level. On the other hand, low sales are being compounded by rising energy and personnel costs, and higher, inflation-indexed rents. However, sales of furniture and home accessories are also suffering. This is leading to a seemingly unending wave of insolvencies among chain stores. In 2024 these included well-known names such as Depot, Esprit, Scotch&Soda, Sinn and Sør. After 2008, 2016 and 2020, this was already the fourth insolvency at Sinn. The result is often branch closures or even the cessation of business operations. The Galeria retail group also closed branches under its third set of insolvency proceedings in mid-2024.

Expenditure on fashion and shoes falls
proportion of private consumer spending, in %



Source: HDE/Destatis

Less shopping = less sales space: No. of German shopping centres and sales space contracted for the first time in 2024
LS: number of shopping centres, RS: space in million m²



Source: EHI Retail Institute

No. of German shopping centres contracted for the first time in 2024

Repeated insolvencies underpin the continuing weakness of city centre retail, partly because e-commerce is having a particularly marked impact here. The volume of sales space has nevertheless continued to increase, although the pace has slowed. However, the development of new space has not come to a complete halt. Another shopping behemoth will be added in 2025 with the delayed opening of the Hamburg HafenCity mall. Sixty years after the opening of the first German shopping centre - the Main-Taunus centre near Frankfurt - the number of centres and the volume of sales space in them declined for the first time in 2024. In addition to shopping centres which have been “withdrawn from the market”, city centre sales space is also contracting. One contributory factor is mixed use concepts for unoccupied department store premises.

Vacancy rates up everywhere, but local pressure for action differs

Because new city centre sales space continued to be developed in the past, there is a correspondingly wider divergence between the volumes of sales space needed and available. There is a significant need for repurposing. According to analysis by Savills, the vacancy rate in shopping centres has more than doubled since 2019 from around 4 to 9 per cent. Similar to city centres, the extent varies. This is also reflected in the Savills report. Sixty per cent of shopping centres have relatively low vacancy rates of less than 10 per cent. For more than a quarter of them, the figure remains moderate at 10 to 20 per cent. The situation is more difficult for almost a fifth of the centres, which report vacancy rates of more than 20 per cent.

City centres could be adversely affected by stalled building projects as developers go bust

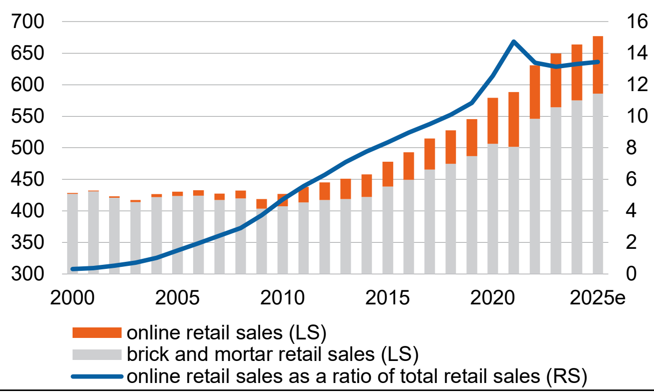
In addition to the current consumer slowdown and ongoing weakness in fashion retail, the construction crisis could also have an adverse impact in some city centres. Many projects have been at least temporarily mothballed by the insolvency of large project developers such as Signa, Centrum and Gerchgroup. A potentially more prolonged halt to large developments in prominent city centre locations may have a negative knock-on impact on the surrounding area.

Market conditions for retail

In 2023, retail sales increased by 3 per cent in nominal terms, but fell by the same amount in real terms due to strong price increases. The result was better in 2024. Although the nominal increase was weaker at 2.2 per cent to 664 billion euros, it also rose slightly in real terms by a good 1 per cent due to significantly weaker inflation. The HDE forecast for 2025 is characterized by the gloomy economic outlook and subdued consumer sentiment. According to this forecast, nominal growth of 2 per cent will be roughly on a par with 2024, but the real increase in sales will be halved to 0.5 per cent compared to the previous year.

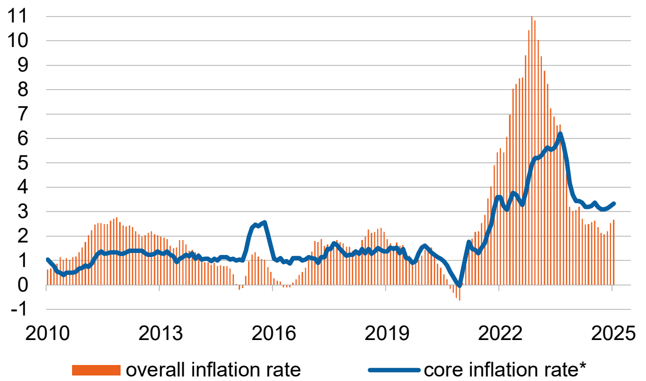
2024 was not a good year, but at least retail sales were positive again in real terms

After a long boom, online retail is currently barely gaining market share
LS: retail sales in EUR bn, RS: share in %



Source: HDE

The negative impact on retail of a rapid rise in consumer prices is over, but inflation continues to pose a risk
consumer prices in % yoy (January 2025)



Source: Eurostat

*) excl. energy and food

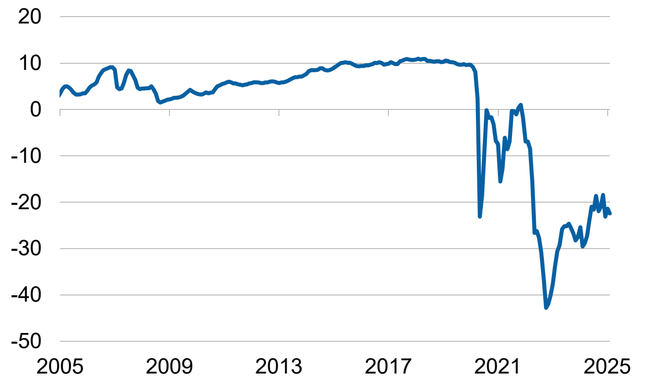
In contrast to previous years, conditions for online retail have not improved significantly either. The high sales growth of the past, which led to a clear increase in market share, has not been evident since 2022. Since then, the e-commerce market share has remained very stable at just over 13 per cent. However, the proportion varies considerably depending on the product group. For food, which accounts for a third of sales, the figure is a low 3 per cent. Conversely, the average for non-food products is nearly 20 per cent. Online sales account for a much larger proportion of around 40 per cent in the core city centre retail segments of fashion, shoes and electronics.

Online share stagnating since 2022 at just over 13 per cent

Consumer restraint in recent years has been attributable to a significant, inflation-driven loss of purchasing power. However, since mid-2023, the previously negative trend in real wages has turned positive again as a result of falling inflation combined with strong wage agreements. In 2024, real wages are likely to have increased on average by more than 3 per cent, considerably boosting the purchasing power of private households. This has nevertheless had little benefit in terms of consumer confidence in a climate overshadowed by crises. The GfK consumer climate index has moved some distance away from its previous low reading, but remains at a comparatively low level.

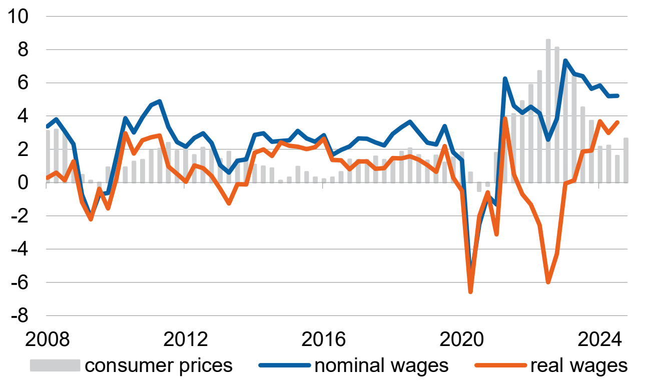
Positive income growth does little to improve consumer sentiment

Consumer sentiment dented by weak consumer climate and many crisis flash points
consumer climate in points (February 2025)



Source: GfK

Household finances improving again: real wages, negative for the most part since 2020, picked up strongly in 2024
in % yoy



Source: Destatis

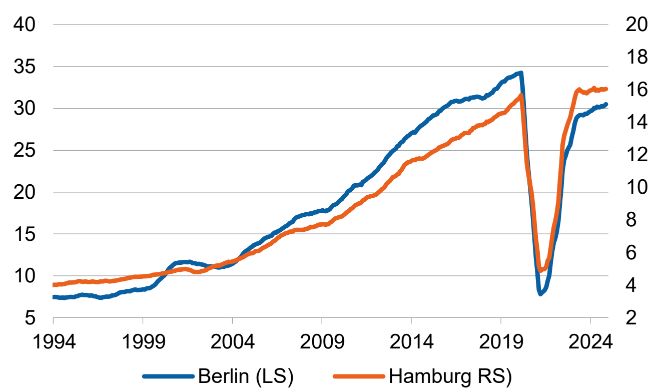
Tourism and footfall recover strongly

Conditions in city centres would be even more difficult if visitor numbers and footfall had not recovered so well after the pandemic. Urban tourism, which has been growing for many years, and has made a significant contribution to city centre retail, has almost regained its high level of 2019. Footfall in shopping streets is essentially back at its previous level. People still enjoy coming into city centres. This is positive, although spending is lower than in the past. If customers were not visiting city centres, the outlook for the retail sector would be even gloomier.

Headwind for city centre retail weighs on rents

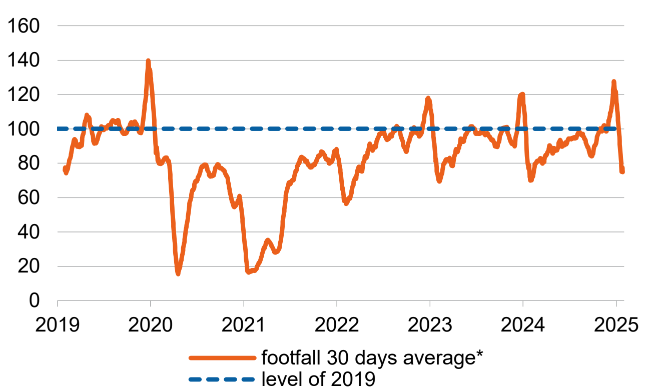
The weak trend in city centre retail has clearly weighed heavily on prime retail rents. Sales lost to e-commerce are associated with less demand for sales space, which is reflected in thinned-out branch networks. However, retail is not only suffering from weak sales, but also from a sharp hike in costs, which further restricts the scope for rent payments. Although all the cities are feeling the negative impact of e-commerce, the pandemic, inflation and consumer restraint, the extent of the decline in rents varies widely. The downward trend in rents had already started before the pandemic and then accelerated. Depending on the location, rents fell from their maximum levels in a range of a few per cent to a halving.

Tourism in Berlin and Hamburg recovers after pandemic
overnight stays in millions, annualized



Source: Destatis

Footfall in shopping streets has also recovered well
index of footfall (2019 = 100)



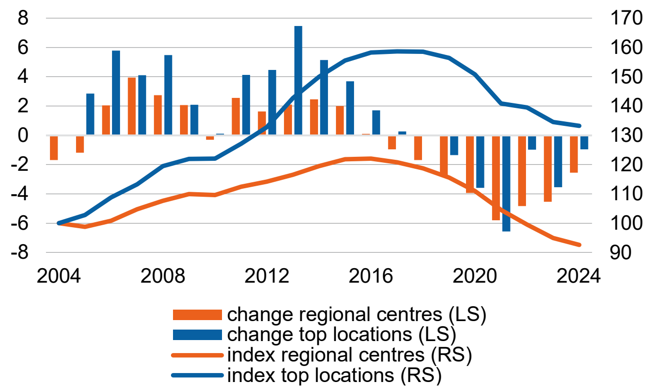
Source: Hystreet/Destatis *) average of 21 shopping streets

Retail: Comparison of top locations

The seven top locations reviewed in this market report have generally performed best overall in terms of retail rents. By 2024, rents had fallen by an average of -16 per cent from their peak levels compared to -24 per cent in other regional centres. However, they had also increased much faster in the top locations in the previous period, with prime city centre rents up by more than 30 per cent from 2004 to 2024, compared to a decline of nearly 10 per cent in regional centres.

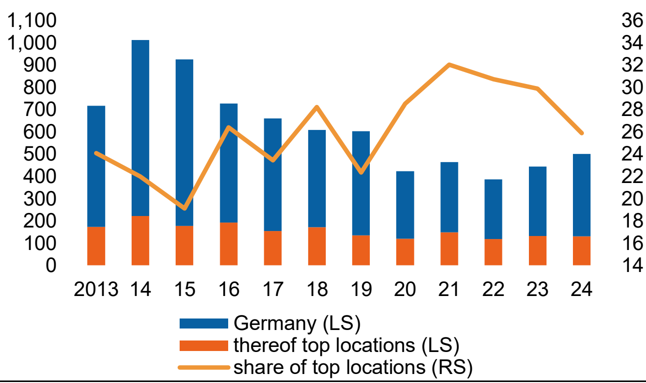
Top locations absorb negative factors for retail comparatively well

Comparatively positive rent trend in top locations
LS: prime rents in % yoy, RS: index 2004 = 100



Source: bulwiengesa

Despite weak retail, city centre space rentals have not declined further
L: Take-up in '000 m², R: Share in %



Source: JLL

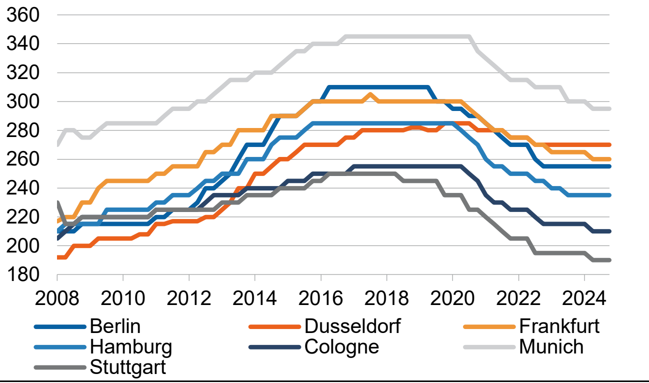
The relative strength of the seven largest cities as retail locations is based on various factors. These include large catchment areas of several million people, strong demographic growth, above-average purchasing power – with the exception of Berlin – and a large volume of visitors from Germany and abroad. However, from the retailer's perspective, other aspects speak for the top locations. Because of their market size and internationality, they are well placed to test new concepts and to act as a "gateway" for suppliers who have not previously had a high street presence in Germany. The risk of city centre depopulation which affects smaller cities is not a factor here. The cities which rank below the top locations are also more interchangeable from a retail perspective. If branch networks are thinned out, the top locations will be less impacted because of their attractive features.

Top locations offer the best conditions for retailers

The continuing headwind for city-centre retail does not mean that there is little interest in retail space. According to data from BNP Paribas Real Estate, just over 500,000 m² of space was leased in German city centres in 2024. Although this figure does not quite reach the floor space turnover of at least 600,000 m² until 2019, it is visibly higher than the figures for 2020 to 2023. The highest figure was reached in 2014 with just over 1 million m². According to JLL figures, just over half of the space leased in 2024 was in shops larger than 1,000 m². This category is particularly in demand due to the consolidation of branch networks, but there is hardly any available space in good locations and of good quality. In terms of use, the largest share of rented space was attributable to the textile trade (37 per cent), followed by gastronomy/food (18 per cent) and health/beauty (9 per cent). In the textile trade, the "young fashion" segment in particular showed expansive tendencies.

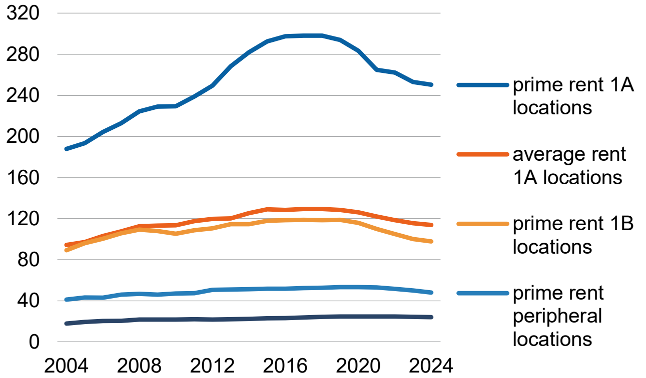
Despite weak retail, demand for sales space was buoyant in 2024

After falling sharply, prime retail rents are now stagnating
prime retail rents in EUR per m²



Source: bulwiengesa

Retail rents in top locations based on city centre locations
retail rents in EUR per m²



Source: bulwiengesa

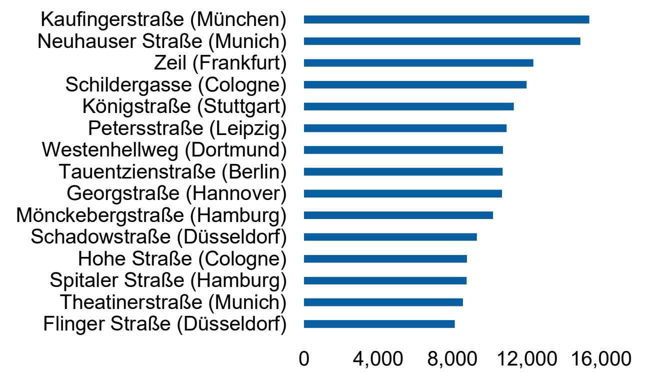
In view of the large number of store closures, the supply for prospective tenants is quite good. Although the availability rate calculated by JLL fell slightly from the 2022 maximum of 17 per cent, at 15 per cent it was on average for the nine largest retail locations in 2024 well over double the 2019 figure. The largest supply of space was in Hanover at 33 per cent. The lowest rate of available retail space was in Düsseldorf, at 6 per cent. In terms of the number of shops, Cologne had the highest proportion (20 per cent), with Frankfurt at the other end of the scale (9 per cent).

Space availability down slightly, but remains very high

The volume of rented sales space in 2024 was broadly in line with previous years. Rented space in the seven top locations combined accounts for around a quarter of the total German market. The trend in prime rents was also mainly stable, and showed virtually no decline over the course of 2024. Prime rents range from EUR 190 per m² in Stuttgart up to just under EUR 300 in Munich. Rents for prime retail space averaged around EUR 250 per m². The decline in rents in 2024 from their peak levels clearly diverges from the average figure of 16 per cent. While prime rents fell by only 5 per cent in Düsseldorf, they declined by 22 per cent in Stuttgart.

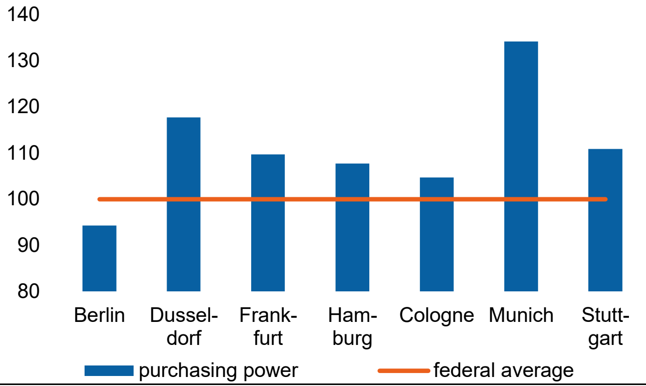
Rental business very stable compared to 2023 based on take-up and rents

Voting with their feet: The Top 15 German shopping streets are in the top locations
peak footfall per hour (2024)



Source: BNP Paribas Real Estate

Apart from Berlin, all top locations benefit from high purchasing power
purchasing power, figures in points (2024)



Source: bulwiengesa

The already mentioned retail advantages enjoyed by the top locations are underpinned by the very high footfall in shopping streets there. Although not every visitor will spend money, the large volume of potential customers increases the probability of a sale. Another supporting factor is that visitors to the top locations tend to have greater financial scope than elsewhere. One aspect is above-average - and in Düsseldorf and Munich massively high - purchasing power. The reference level for Germany as a whole is undercut only in Berlin. City tourists also play a part here since anyone who embarks on an expensive weekend trip is usually not short of cash.

Top locations ahead in terms of footfall

Outlook: Conditions remain weak

At the beginning of the year the outlook for the retail sector had improved somewhat. Falling inflation, strong wage growth and an economic revival in the second half of 2024 raised hopes of an upturn in business. However, these hopes were dashed, despite greater scope for consumption due to very positive real incomes. The economic crisis has taken hold and increased fears of job losses. Under crisis conditions, households are holding onto their money as reflected in a significantly higher savings rate.

Retailers hopes of better business have been dashed

While sales have shown virtually no growth, retailers are carrying the added burden of rising wages and social security contributions, and expensive energy. The situation is being compounded by increasing bureaucracy and a growing skills shortage. Competition from cheap Chinese goods is also increasing. The number of insolvencies could therefore continue to grow. In 2022, Creditreform recorded 50 insolvencies out of 10,000 companies. In 2023 the figure rose to 61, and to more than 70 in 2024.

Sales largely stagnating, as costs rise sharply and bureaucracy increases

However, the fact that people still enjoy spending time in city centres is positive. A city centre stroll is one of the most popular leisure activities. However, retailers will have to work harder to provide new shopping experiences and more convenient shopping to encourage customers to buy. The sector will also have to adapt to evolving customer structures as society becomes increasingly diverse and ages. Cost efficiency is another factor in success.

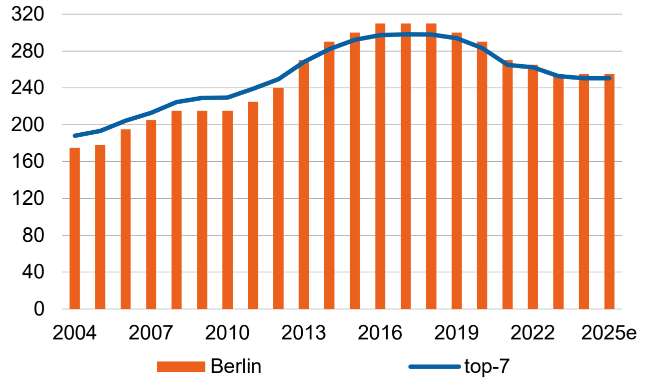
Retail sector will have to adapt to an increasingly diverse, and ageing population

Retailers from within Germany and abroad will focus on attractive locations, including the seven largest cities in particular. It is still fairly easy to rent retail space in these cities, provided it meets retail criteria, supports experience-oriented shopping and is ESG-compliant. However, higher prime rents are unlikely to be realized under weak conditions. At best, rents will not fall any further in 2025.

Top locations benefit as retailers focus on attractive sites

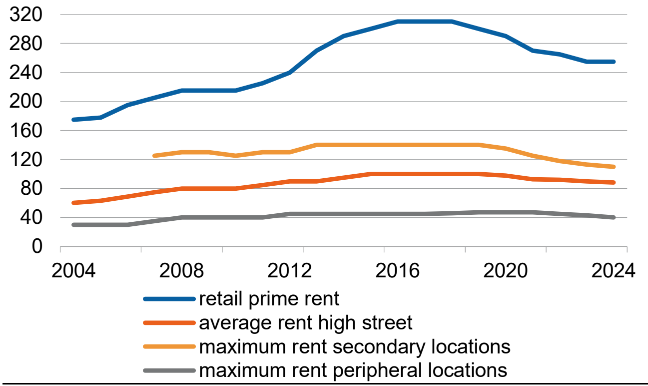
Overview of top locations
Retail space in Berlin

Prime retail rents
in EUR per m²



Source: bulwiengesa

Retail rents based on location in Berlin
in EUR per m²

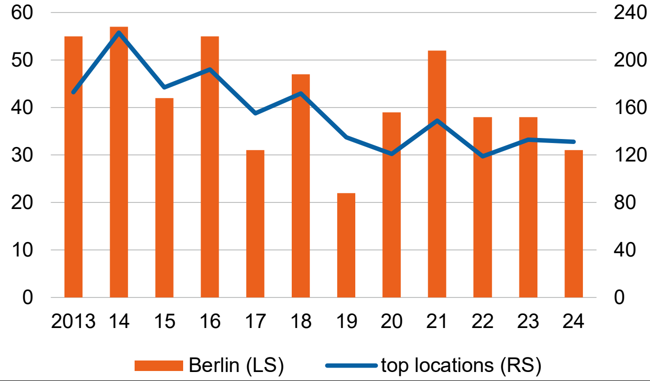


Source: bulwiengesa

Need to consolidate excess space supply even in Germany's leading shopping location

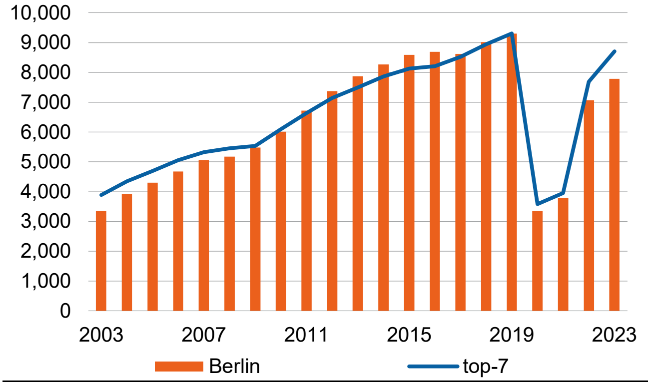
The retail sector has been a clear beneficiary of the upturn in Berlin. The main contributory factors are a sharp decline in unemployment and the major expansion of customer potential as the population has grown, as well as flourishing tourism. With more than 30 million overnight stays each year, visitors play a particularly important role for city centre retail because regional purchasing power is low. With demographic growth having boosted the population of Greater Berlin to more than 5 million, the sector 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. However, with the number of potential customers growing, there is overcapacity. This is reflected inter alia in the increase in the number of shopping centres to around 70, the most prominent of which is the large Mall of Berlin. One example of the consolidation process was the closure in 2024 of the French luxury store Galeries Lafayette which opened in 1996. A number of centres 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 m². However, rents have remained stable since the end of 2022. Below the line, the prospects are nevertheless good for retail in the attractive capital. The Berlin Senate plans to invest more than half a million euro to support the retail sector.

Space rental in city centre locations
in '000 m²



Source: BNP Paribas Real Estate

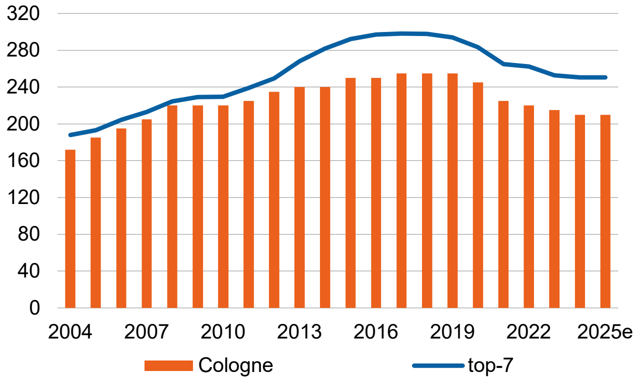
Trend in tourism
number of overnight stays per 1,000 inhabitants



Source: bulwiengesa

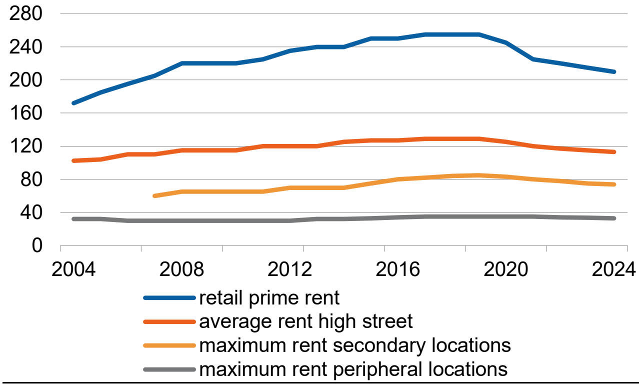
Retail space in Cologne

Prime retail rents
in EUR per m²



Source: bulwiengesa

Retail rents based on location in Cologne
in EUR per m²

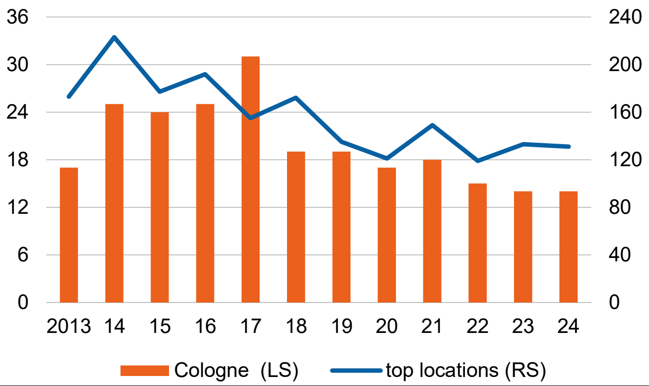


Source: bulwiengesa

High footfall makes Cologne city centre attractive to retailers

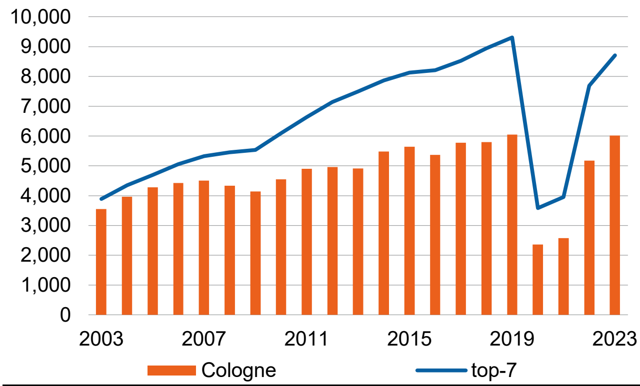
Cologne, with its population of one million, is the second top location in west Germany after Düsseldorf, which gives rise to a certain amount of competition. A catchment area of more than 2.5 million potential customers and a large volume of day-trippers from the Benelux countries make the city attractive for retailers. However, purchasing power is not overly high. In contrast to Düsseldorf's distinctive luxury segment, Cologne city centre is geared more strongly to mainstream retail. Although not particularly attractive visually, it offers retailers a three-kilometre shopping route with high footfall. First and foremost is Schildergasse where many chain store branches are located. The P&C Weltstadthaus here is to be enhanced with a 50 metre high mixed-use high-rise building on the neighbouring site. Footfall is also high on Hohe Straße, although the quality of stay in the narrow street is low and the small scale post-war buildings are less attractive to fashion chains. However, a number of modernization projects should improve the tenant structure which currently consists of cheap fashion and food outlets. Conspicuous vacant properties are mainly a result of building projects. Ehrenstraße is an on-trend area which has benefited from conversion to a pedestrian zone. A smaller luxury segment has become established in the Domkloster/Wallrafplatz area. Prime rents have fallen by 18 per cent from their peak to EUR 210 per m². The upgrading of the city centre with the Laurenz Carré which is under construction in the vicinity of the cathedral is no longer at risk, after HanseMerkur took the project over from the insolvent Gerchgroup.

Space rental in city centre locations
in '000 m²



Source: BNP Paribas Real Estate

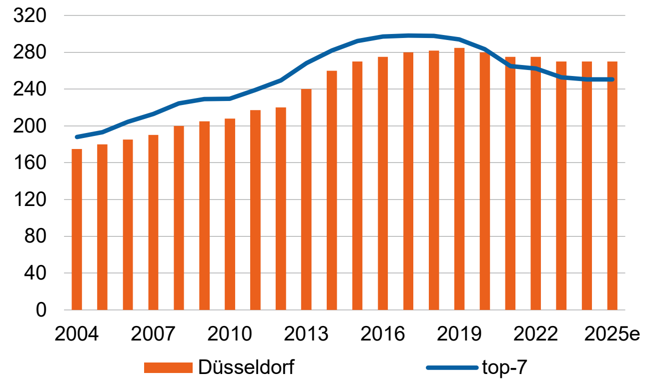
Trend in tourism
number of overnight stays per 1,000 inhabitants



Source: bulwiengesa

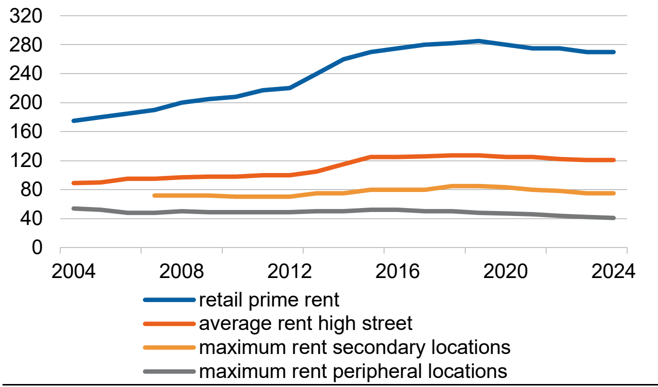
Retail space in Düsseldorf

Prime retail rents
in EUR per m²



Source: bulwiengesa

Retail rents based on location in Düsseldorf
in EUR per m²

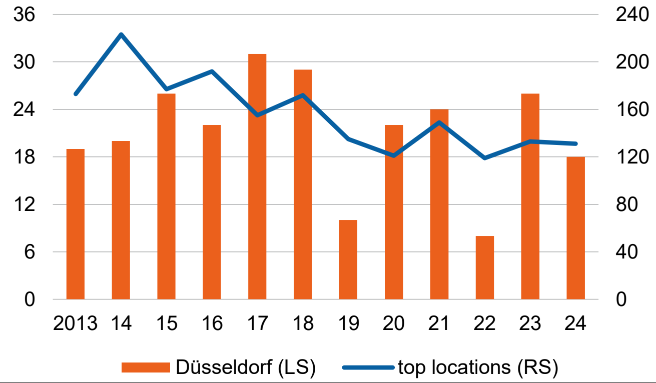


Source: bulwiengesa

Revamped city centre remains crisis-proof

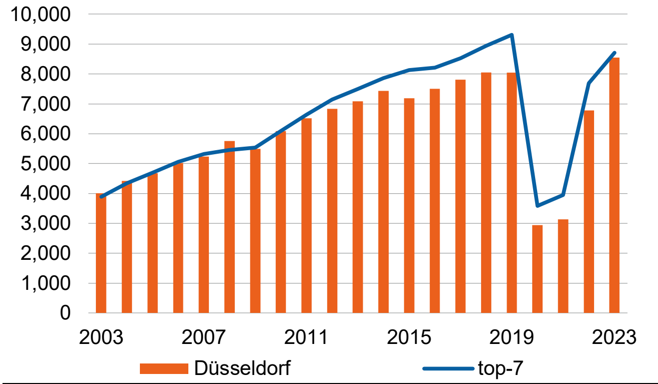
Düsseldorf has developed successfully as a shopping location. The city centre has become much more attractive thanks to a number of urban planning infrastructure projects and major investment in new and existing retail properties. Although Düsseldorf has also felt the impact of the negative factors which are afflicting the retail sector, they have been less severe for the rental business than in other top locations. Up to 2022, prime rents had declined by only 5 per cent from their peak levels and have since remained at EUR 270 per m². With rents having fallen much more steeply in Berlin, Frankfurt and Hamburg, Düsseldorf is today the second most expensive retail location. Plus points are a catchment area of 2 million people 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, which is mainly located in the famous “Kö” shopping boulevard. Apart from the Königsallee, other prime city centre locations are Flingerstraße and the redesigned Schadowstraße shopping street. In recent years, other iconic retail developments such as the Kö-Bogen and the KII have been added. The Kö shopping mall, which was built in the 1980s, is to be gradually modernized. The former Kaufhof retail site Am Wehrhahn is to be repurposed as a new opera house. The future of the Carsch Haus department store built in 1915 – one of the largest building sites in Düsseldorf – remains uncertain, after an investor withdrew at the end of 2024. The realization of the Calatrava Boulevard which runs parallel to the Kö is even more uncertain.

Space rental in city centre locations
in ‘000 m²



Source: BNP Paribas Real Estate

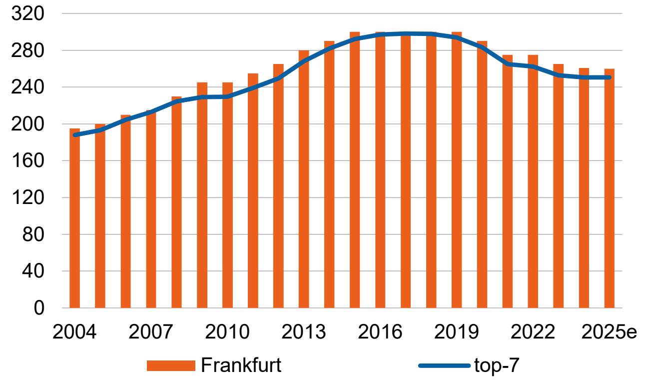
Trend in tourism
number of overnight stays per 1,000 inhabitants



Source: bulwiengesa

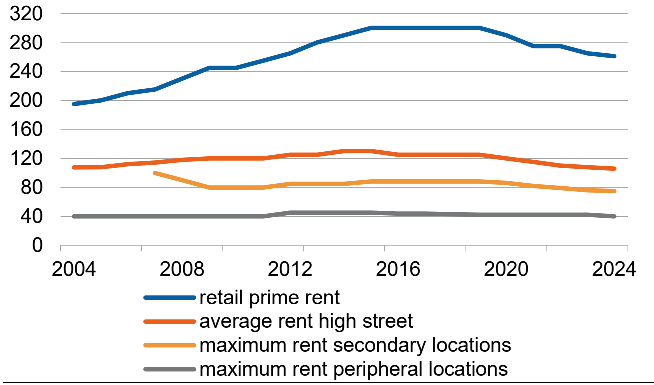
Retail space in Frankfurt

Prime retail rents
in EUR per m²



Source: bulwiengesa

Retail rents based on location in Frankfurt
in EUR per m²

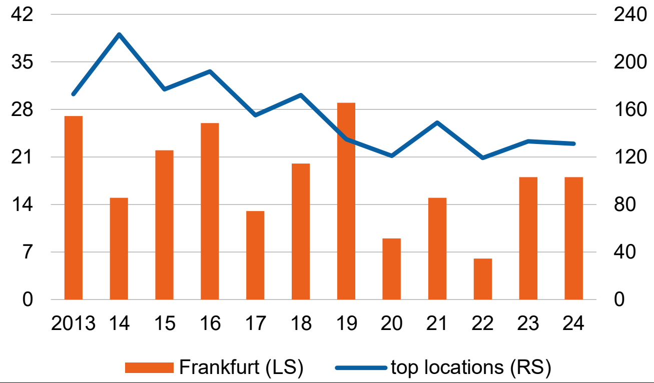


Source: bulwiengesa

The Frankfurt conurbation has shown dynamic growth in recent years. It now has a catchment area of around 2.5 million people with high purchasing power. The city's retail sector also benefits from a very high visitor volume, with more than 13,000 overnight stays per 1,000 inhabitants. By 2023, the figure had almost regained its previous peak level of 2019. Frankfurt has a broad retail offer, with its two prime locations of Zeil and Goethestraße as well as several large shopping centres. Goethestraße, with its focus on the luxury segment, has developed much more successfully than the Zeil shopping street where there are many vacant properties. Various new build and renovation projects are likely to have a negative impact there for some time. One example is the renovation of the P&C store as a multi-use property including a primary school. Contrary to earlier plans, the former Karstadt store will continue to be operated as retail real space. Currently, the Spanish fashion label Bershka is using the building as its largest European branch. Space which becomes vacant on the Zeil often attracts interest. Examples are the new flagship store of the sneakers retailer Snipes and the planned new branch of Thalia in the former Esprit building. Prime rents fell to EUR 261 per m² in 2024, which represents a fairly moderate decline of 13 per cent from their peak level. Outside the city centre, the Skyline Plaza, which is only eleven years old, is to be modernized at a cost of EUR 35m. Fashion retailers will in future occupy around a third of space compared to 60 per cent previously. The leisure and entertainment offer will also be expanded.

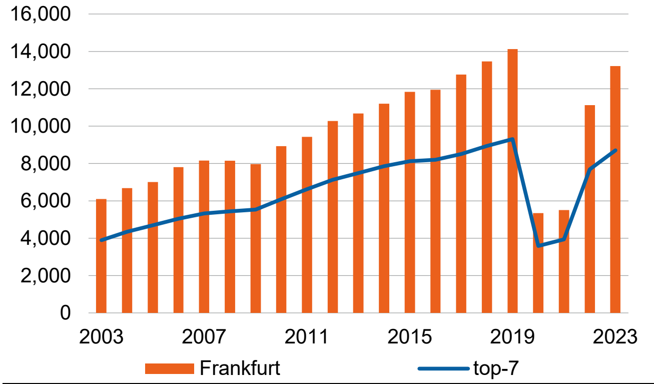
Tourism gains momentum in Frankfurt – the Zeil becomes a building site

Space rental in city centre locations
in '000 m²



Source: BNP Paribas Real Estate

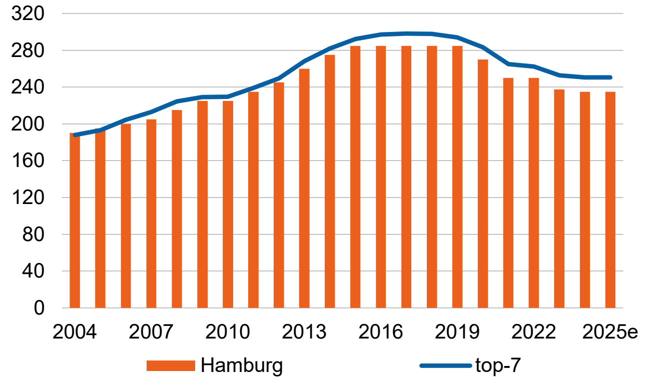
Trend in tourism
number of overnight stays per 1,000 inhabitants



Source: bulwiengesa

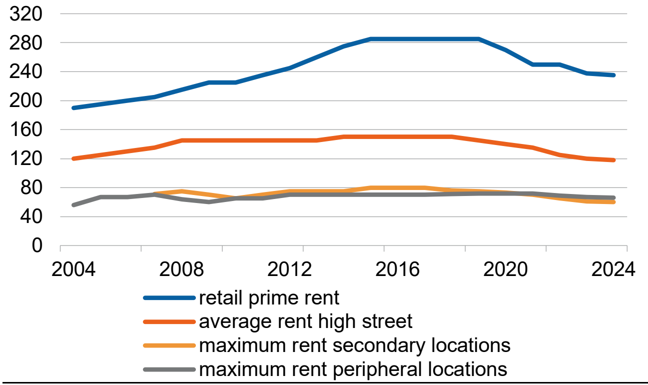
Retail space in Hamburg

Prime retail rents
in EUR per m²



Source: bulwiengesa

Retail rents based on location in Hamburg
in EUR per m²

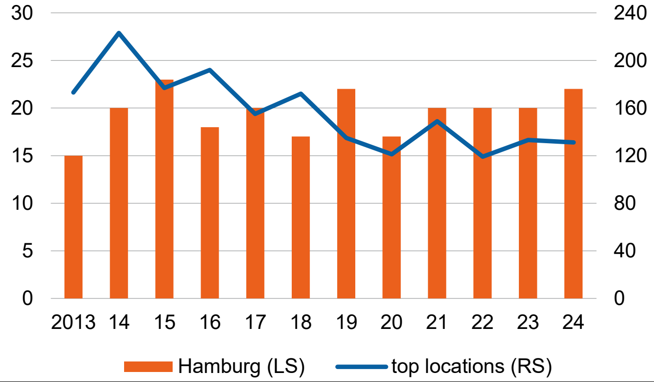


Source: bulwiengesa

Transformation of main shopping street Mönckebergstraße; HafenCity will be a retail counterweight

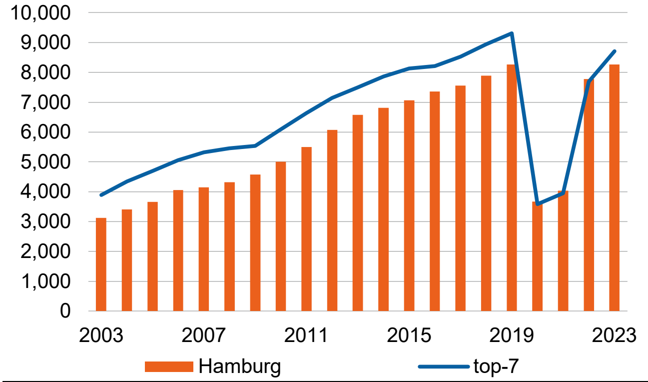
As the leading shopping location in northern Germany, Hamburg benefits from a catchment area of 3.5 million people and high purchasing power. Tourists and cruise passengers are an important customer group. The broad retail offer of classic shopping in Spitalerstraße and Mönckebergstraße in the east of the city centre, and luxury locations such as the Neuer Wall and Jungfernstieg shopping streets in the west, is attractive to customers. The Europa Passage – a large city centre shopping mall – lies between them. As elsewhere, the negative factors affecting retail have led to closures and vacant properties. However, space can often be relet as a result of interest from newcomers to the city centre. The Senate also encourages the temporary use of buildings for cultural purposes. For example, the further extension of the "Frei_Fläche" programme at the end of 2024 has facilitated the continuation of the "Jupiter" cultural project in the former Karstadt Sport building. Conversely, the former Kaufhof building is to be repurposed for mixed use with housing, and retail and office premises. Prime rents are down by a good 18 per cent from their maximum to EUR 235 per m², and are mainly achieved on Neuer Wall. In spring 2025,
the shopping offer just outside the city centre will be enhanced by the forthcoming opening, after several delays, of the Westfield Hamburg-Überseequartier development in the HafenCity with around 170 shops. Its approximately 80,000 m² of sales space represents a quarter of available city centre space.

Space rental in city centre locations
in '000 m²



Source: BNP Paribas Real Estate

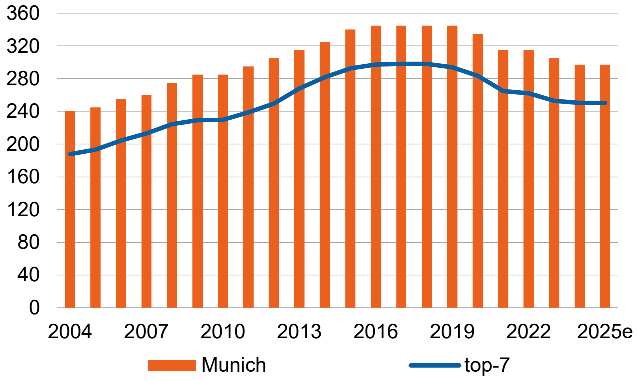
Trend in tourism
number of overnight stays per 1,000 inhabitants



Source: bulwiengesa

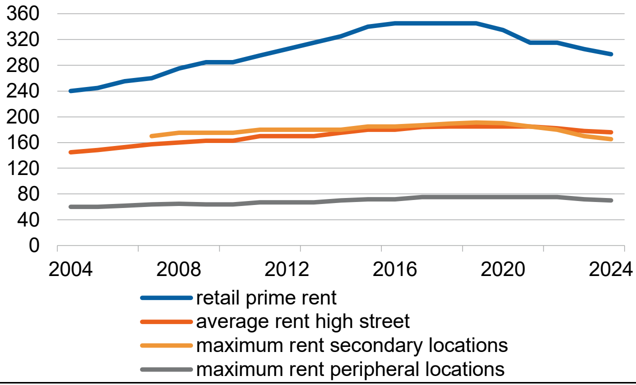
Retail space in Munich

Prime retail rents
in EUR per m²



Source: bulwiengesa

Retail rents based on location in Munich
in EUR per m²

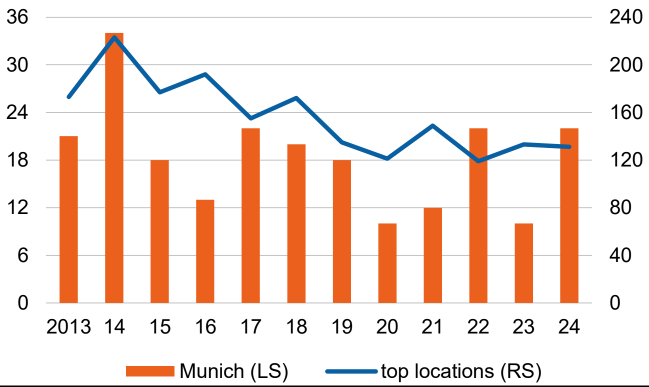


Source: bulwiengesa

City centre benefits from extremely high purchasing power and many tourists

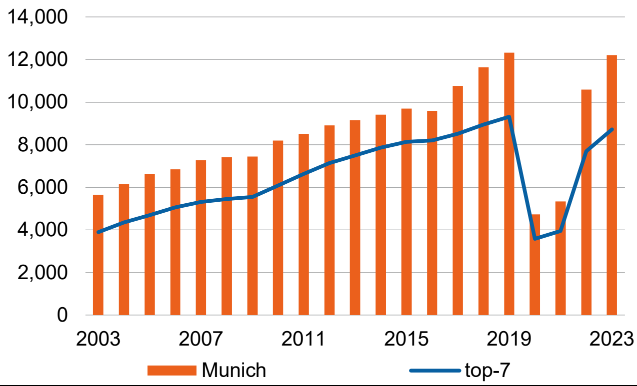
Munich tops the retail league in Germany in terms of prime rents, purchasing power and sales floor productivity. Favourable conditions such as an economically strong catchment area of more than 3 million people also play a part. High levels of migration are leading to steady growth in customer potential. Another plus point is the high quality of stay in the attractive city centre with a Bavarian flavour and an extensive offer of mid-range retail concepts, traditional specialist shops and luxury stores. Flourishing tourism is boosted further by the world-famous Oktoberfest. Prime rents have risen to the highest level in Germany, although the volume of city centre sales space is relatively high at just over half a million m². The highest rents are in Kaufingerstraße, Neuhauser Straße and Maximilianstraße. Prime rents have fallen by 14 per cent from their peak to EUR 297 per m². They remained largely stable last year. Signs of the retail crisis are also evident in Munich in the form of vacant properties. However, new businesses often open up in shops and branches which have closed. Some former retail space is also being repurposed. For example, the upper floors of the former Karstadt Sports and C&A stores will be mainly used as offices in future. A large branch of the New Yorker fashion chain will occupy about half of the retail space still available in the C&A store from 2027. Solutions are still being sought for Signa projects such as the Karstadt complex at the station and the Alte Akademie.

Space rental in city centre locations
in '000 m²



Source: BNP Paribas Real Estate

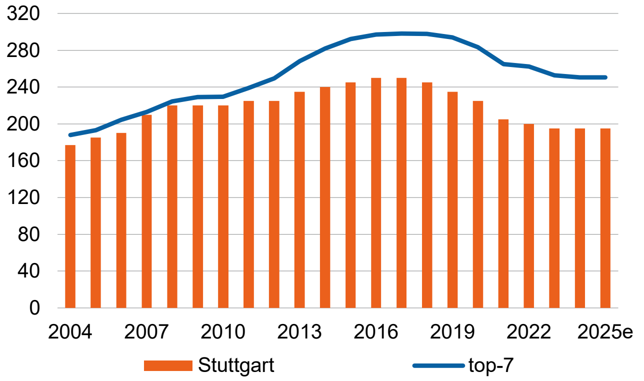
Trend in tourism
number of overnight stays per 1,000 inhabitants



Source: bulwiengesa

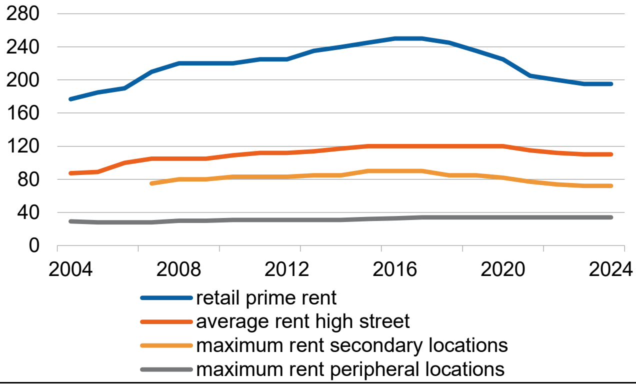
Retail space in Stuttgart

Prime retail rents
in EUR per m²



Source: bulwiengesa

Retail rents based on location in Stuttgart
in EUR per m²

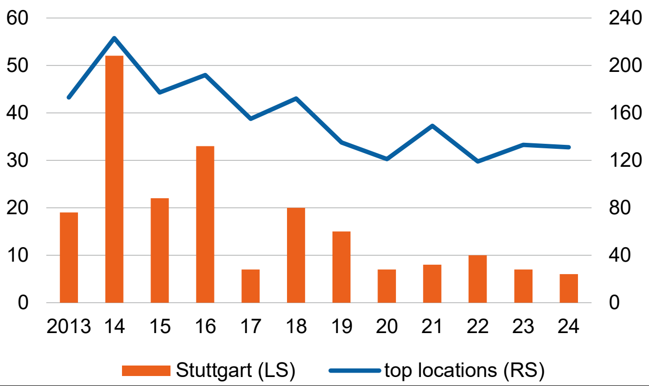


Source: bulwiengesa

Stuttgart benefits from a catchment area of nearly 3 million people and strong purchasing power. However, tourism is not quite as important as in other top locations. This was not nevertheless the main reason for the comparatively sharp fall in prime rents in Stuttgart, which declined by 22 per cent from their peak in the prime location of Königstraße. The negative factors for retail everywhere have been compounded in Stuttgart by the expansion ten years ago of sales space with two new city centre shopping centres. Retail activity has also been disrupted by major building works. In response to lower demand for sales space, one of the centres, the Gerber mall, has been repurposed for mixed use with retail outlets, bars and restaurants, offices, apartments and a hotel. At the end of 2024, IKEA initiated a planning study here with the intention of bringing their green field residential solutions into the city centre. No downward trend has been evident in the city centre. Supporting factors are continuing high footfall in Königstraße and stable prime rents since autumn 2022. As in other city centres, vacant properties are visible and are also being repurposed for temporary use. One large building project is the “Schlossgartenquartier” building complex opposite the main station at the entrance to Königstraße. Conversely, the Signa project “Two High Five” to replace the former sports arena (König-/Schulstraße) has stalled.

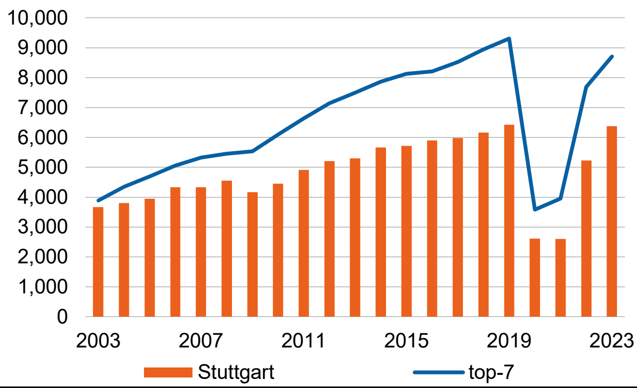
Prime rents stabilize after falling sharply

Space rental in city centre locations
in ‘000 m²



Source: BNP Paribas Real Estate

Trend in tourism
number of overnight stays per 1,000 inhabitants



Source: bulwiengesa

OFFICE PROPERTIES

After home working, economic slump now hampering demand for office space

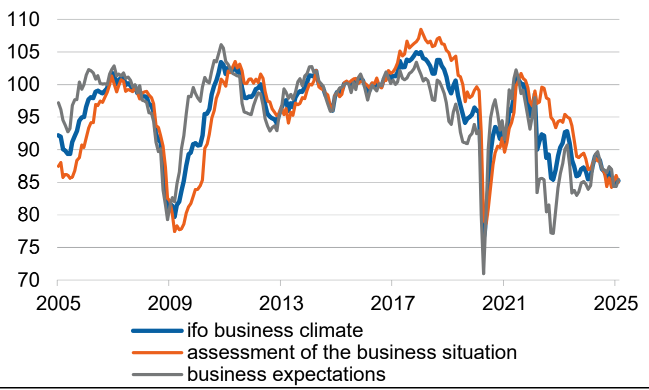
Office market hit as German economy now stagnating for second year in a row...

Sentiment among companies is poor and hopes of any prompt and comprehensive economic recovery have evaporated. The only time the ifo Business Climate Index has ever dipped lower was during acute crises such as the global financial crisis or the pandemic. The economy stagnated for the second year running in 2024 and Germany is bottom of the growth league in the eurozone, hampered by weak exports, low investment, a slump in construction activity and persistent spending restraint among households. The outlook for 2025 does not offer any glimmer of hope either; if anything, tariff announcements by US President Trump threaten to become an additional burden. The German economy is also weighed down by bureaucracy, high energy prices, rising staff costs and a high level of staff sickness, leading to job cuts, relocations abroad or plant closures.

...but should be bolstered in some locations as international groups buck the trend

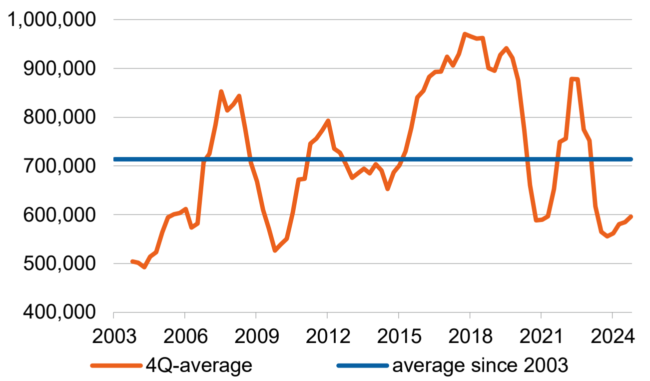
Consequently, many companies are focusing less on expansion and more on cost savings, and, even, if their current office space no longer meets requirements exactly, they are postponing signing up to new, up-to-date and mostly more expensive offices, opting instead to extend existing leases. However, not all German companies by any means are being affected by the country's economic crisis. The impact in the case of international groups is at most limited. This is best illustrated by the performance of the DAX40 which rose beyond the 20,000 point mark for the first time in December 2024. The office market should also be bolstered by the success of these companies.

Poor sentiment among companies
Business Climate Index in points, 2015 = 100 (February 2025)



Source: ifo Institute

Space let in top locations falls to low level
Office take-up* to total stock in %



Source: bulwiengesa

*) combined over the seven top locations

Trend in the office market towards contract extensions and more medium-sized transactions

On balance, though, the effects of lower demand for space through WFH and a flatlining economy cannot be ignored. Where leasing transactions do take place, the preference is for high-end offices in good locations, which aim to encourage staff back into the office. In addition, sustainable buildings are increasingly becoming an essential criterion for tenants, in spite of higher rents for such premises. Higher rents moreover can be put into perspective by smaller spaces and rising employee productivity. Large transactions of over 10,000 m² as drivers of high office space take-up have become a rarity. Clients are mostly opting for smaller to medium-sized offices, a trend which, overall, is going hand-in-hand with visibly lower office space take-up.

Simultaneous rise in vacant space and office rents

Take-up in the seven top locations fell to under 600,000 m² per quarter in 2024. Prior to the pandemic, the figure was still over 900,000 m². In addition, the figure is clearly below the 20-year average. At the same time, since 2020, falling demand for office space has been leading to a steady rise in vacancy rates. After a fall in the rate in the top locations to just under 3 per cent by 2019, it had risen steadily to just under 7 per cent by 2024. This figure is pretty much exactly in line with the long-term average since the turn of the millennium. This means that around 6 million m² out of a total top location stock of 85 million m² is not let.

Take-up at an historical low, while the vacancy rate continues to rise

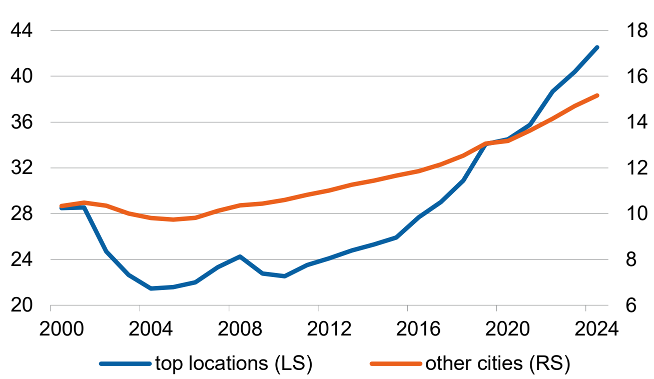
However, WFH and a change in the demand profile for office space are not leading to a rising amount of empty space everywhere. According to a 2024 survey by the ifo Institute, around 6 per cent of companies – above all service providers and large companies – have reduced the size of their offices. However, this mostly affects top locations and another few larger office markets. In contrast, medium-sized and smaller office markets are reporting largely low and stable vacancy rates. Whereas the rate in top locations rose by 3.5 per centage point between 2019 and 2024, it only rose by half of one per centage point to around 4 per cent in the remaining locations.

Rising amount of vacant space through WFH mainly concentrated in large office markets

It may be that remote working does not play such an important part in smaller locations with a strong SME business environment as it does in large cities with group head offices and international company bases. Moreover, activity in smaller office markets is often more occupier-driven. In cases where the head offices of regional industrial companies, banks or public authorities need fewer desks as a result of WFH, it is mostly difficult to downsize office space or sub-let parts of it: This is leading to hidden vacancies.

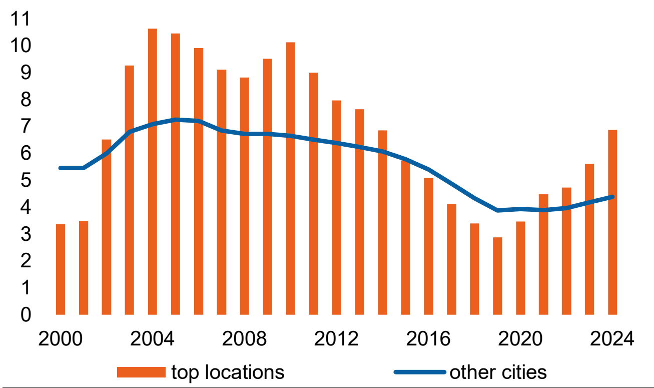
Does WFH play a more marginal role in smaller markets or is there "hidden vacant space"?

Activity in Top7 livelier than in other office markets, …
prime office rents, in EUR per m²



Source: bulwiengesa

… however, vacancy rates in Top7 also rising faster
vacancy rates, in %



Source: bulwiengesa

Unlike in the past, prime rents are not easing in the wake of rising supply; instead, the uptrend has continued unabated. In spite of the vacancy rate in top locations more than doubling since 2019, average prime rents in those locations have risen by around 25 per cent. However, the trend is uneven across the various office markets.

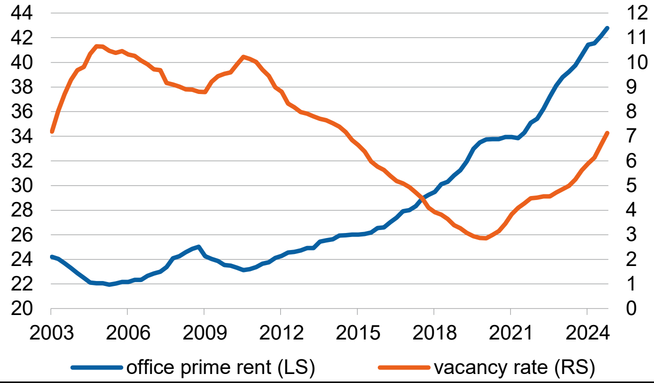
Prime rents may rise further in spite of rising vacancy rates

The increase in prime rents is mainly in city centres and on the edges of the centre as well as in periphery locations. Tenants are only willing to pay higher rents for sought-after modern and sustainable offices, since such spaces aim to ensure higher presenteeism and better communication. In contrast, average rents in individual

Rent rises easier to implement in the case of modern office space

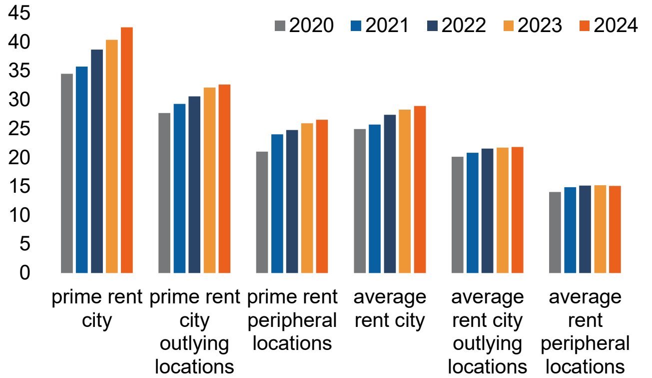
office locations were flatter or even stagnated. Moreover, office space outside the top segment can often only be let with additional incentives such as a rent-free period. The bulk of the office stock is decades old. Around half the stock in top locations was built before 1990 and is no longer up to modern standards; this puts landlords in a weaker position when it comes to negotiating.

Prime rents have continued to increase in spite of rising vacancy rates
LS: rent in EUR/m², RS vacancy rate in % (top locations)



Source: bulwiengesa

Split development: Prime rents above all could increase further
office rents in EUR/m²



Source: bulwiengesa

Growth in white-collar work halted by flatlining economy and demographic trend

Up to 2019, decline in vacancy rate fuelled by increase in number of office workers

A question mark hangs over the future trend in demand for office space and vacancy rates. Up to 2019, there was a steady decline in office vacancy rates on the back of rising employment, a higher proportion of office workers along with only moderate office construction. However, a marked fall in vacancy rates and sharp rise in office rents led to an upturn in office construction and hence rising vacancy rates from 2020 onwards. However, this pattern is unlikely to continue in the next few years since the trend in both employment and office construction is likely to have peaked, driven by a flatlining economy, ageing population and the crisis in the construction sector.

Only slight decline in employment since number of public servants continues to rise

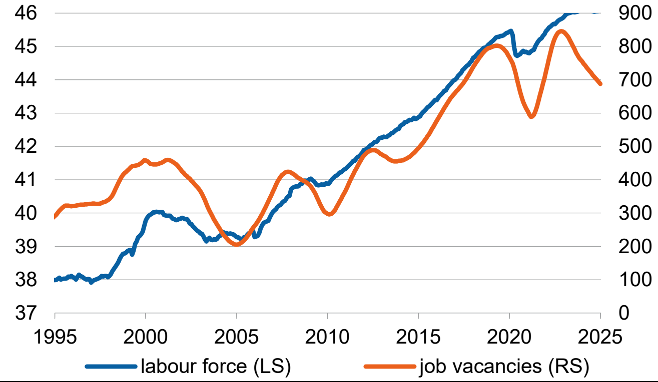
Disproportionate rise in number of office workers

The number of people in employment rose by over 18 per cent within the space of 20 years – from 39 to 46 million. However, the uptrend came to an end in the spring on the back of economic headwind. Since then, there has been a slight reduction in employment through of job losses in industry and the construction sector, and the decline would have been more pronounced without a sharp increase in employment in the public sector. The number of people employed in the public sector rose by almost half a million to 5.3 million in the period from 2018 to 2023. The number of office workers rose even more strongly than employment overall. Across Germany, more than 15 million people now work at a desk. Consequently, the proportion of office workers has risen from around 31 to 33 per cent within 20 years.

Impact of ageing population on employment dependent on several factors

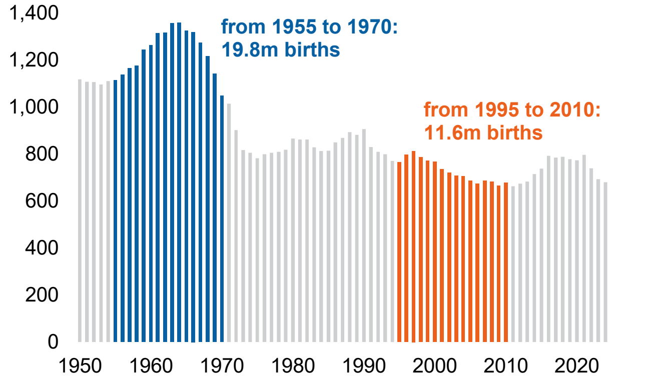
However, a flatlining economy is not the only driver behind faltering employment growth. Baby boomer generations of the 1950s and 1960s are gradually retiring and not being replaced by subsequent cohorts, which have been characterized by a low birth rate. The extent of the impact of an ageing population is also dependent on other factors, though. Immigration, a higher retirement age, rising employment rate or less part-time work can mitigate the demographically-led decline in employment which is going hand-in-hand with dwindling demand for office space.

Slight decline in employment; fall in job vacancies
LS: no. of people in employment in million, RS: job vacancies in '000



Source: Federal Employment Agency

Birth rate never recovered after dip brought about by advent of the Pill
births in '000



Source: Destatis

Presenteeism picking up again, but WFH here to stay

However, the decline in demand for office space may also be eased by a rising number of mandatory office days since more and more companies are increasing their requirement for office attendance – often to three or more days per week. WFH is here to stay, however, as illustrated by the wish for remote working expressed by many office workers in a large number of surveys. The reasons given for this are looking after children and caring for elderly parents or pets. The extent to which employees will be able to have their wish will also depend on the situation in the labour market. However, the shortage of skilled workers is likely to increase as a result of demographics. Another aspect is the lack of housing for new staff in top locations. If companies insist on high presenteeism, they will need to solve the housing problem and factor in the need to pay higher salaries in order to offset high housing costs.

Can AI make up for the demographically-led decline in labour supply?

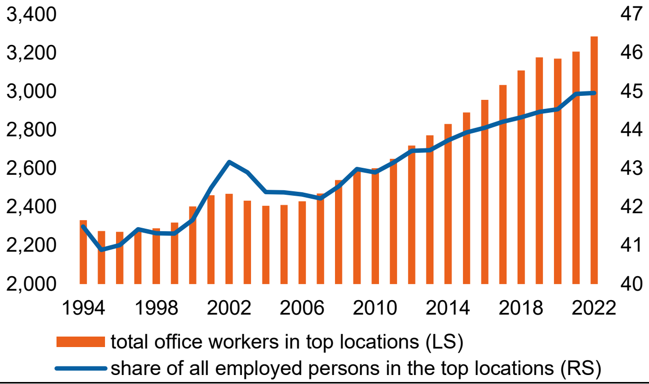
Companies will have a chance to mitigate the impact of a dwindling labour supply brought about by an ageing population through the use of artificial intelligence (AI). AI will mainly free staff from routine tasks. It is impossible to say as yet how fast its use will progress and to what extent the need for human employees will decline.

Vacancy rate dampened by tight supply and alternative uses

On balance, the question is not so much whether demand for office space will dwindle but rather by how much. According to the survey carried out by the ifo Institute mentioned earlier, at least 8 per cent of companies are planning to reduce their office footprint in the next five years. However, prospects regarding future demand are generally better for the top locations, as suggested by good national and international connections, a good labour supply through big universities along with migration from home and abroad. Top markets could also benefit if companies rationalize locations. In the past also, these were the markets where the overall number of office workers and their share of the total workforce saw strong growth overall. The number of office workers rose by almost 45 per cent to 3.3 million within the space of a quarter of a century.

Sharp increase in office work at top locations in the past

LS: in '000, RS: share in %



Source: bulwiengesa

Falling vacancy rates are driving office construction, but rising building and financing costs will put a severe brake on it again from 2022

building permits for office space, 2015 = 100

Source: Destatis

Faltering office construction accompanied by tightening supply

Modern office space is likely to remain in tight supply in spite of persistent demand. A sharp rise in construction and financing costs along with the fact that a number of developers went bankrupt have brought many building plans to a halt. The trend in building permits – numbers have fallen by around one third since the end of 2021 – points towards fewer office completions in the next few years.

Office buildings fairly easily repurposed for housing, schools or hotels

Apart from weaker office construction, the repurposing of redundant office buildings is also likely to slow down the rise in vacancy rates. Although, a change of use in office buildings often involves high costs, the outlook for such projects is better in the seven biggest cities in view of high rents in these locations. Possible uses are regular flats, commercially managed properties, hotels or even schools. Another factor in favour of a change of use is that demolishing buildings and starting again from scratch is seen in a bad light from an environmental point of view.

Manage-to-Green approach a financial challenge for office

Offices with poor sustainability rating difficult to let

Decarbonization in the face of climate change is a major factor for office buildings which are often quite old. One aspect involves more stringent requirements in the Building Energy Act (GEG) or "heating law", which include not only heating requirements for large commercial properties, but also building automation. Even more important, though, is the tenants' search profile. Whereas it is still easy to let flats even if they are not up to scratch as regards heating in view of a tight supply, the general decline in demand for office space is increasing the vacancy risk for offices with a poor sustainability rating. After all, companies want a clean green score sheet when it comes to their employees, customers, investors and lenders. Regulatory requirements, such as EU taxonomy are therefore also having an indirect impact on leasing office space.

Green investment important, but also has to make financial sense

Owners are likely to be well aware that the risk of assets becoming "stranded" increases in the case of office buildings with poor energy efficiency. However, a manage-to-green approach also has to be achievable financially. Although leasing prospects increase after a refurbishment, investment costs must also be sufficiently reflected in rising rents. Unlike in the case of office markets where rents are low, financial prospects for a comprehensive refurbishment in top locations are better in view of high rents – just as in the case of repurposing.

Office market: Overview of locations

Higher vacancy rate failing to slow down rise in prime rents...

The impact of the "new work" concept described earlier and changes in requirement profile for offices that it entails is clear in all the top locations. Whereas the vacancy rate in 2024 was back to the level of 2014 at just under 7 per cent, prime rents have risen on average by over 60 per cent to almost EUR 43 per m² during this ten-year period on the back of strong demand for high-end offices. However, there are wide variations in the momentum of the upturn and levels reached from one location to another among the top-7.

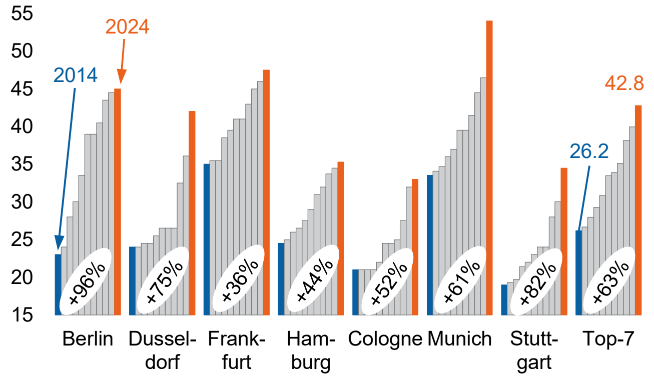
...but huge differences in increase and above all level of vacancy rate

The vacancy rate increased by an average of 4 per centage points to 6.9 per cent from 2019 to 2024. The smallest increases were in Hamburg and Cologne at 2 and 2.4 per centage points to 4.9 and 4.7 per cent respectively. The strongest rises were in Berlin and Munich which previously had the lowest vacancy rates of only marginally above 1 per cent. The rate in Munich rose by 4.8 per centage points to 6.2 per cent; in Berlin, it increased by 5.6 per centage points to 6.9 per cent. The rate in Stuttgart lifted by 3.5 per centage points to 5.4 per cent. Even in the past, Düsseldorf and Frankfurt had the highest vacancy rates at 10.1 and 11 per cent respectively. The figure in both these locations is therefore roughly twice the level in Hamburg, Cologne and Stuttgart.

Munich overtakes Frankfurt as most expensive office market in Germany by far

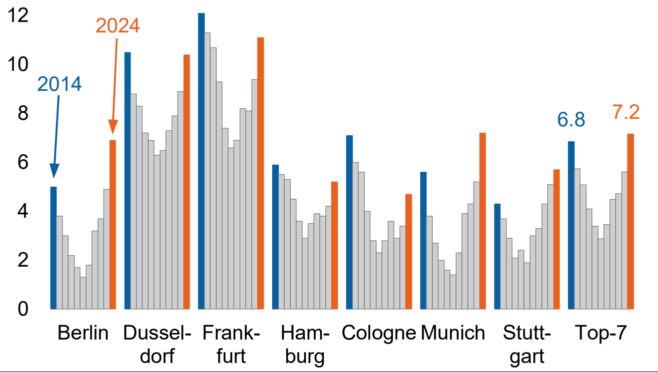
Just like the vacancy rates, there were also noticeable differences in prime rents, depending on the top location. In Berlin, prime rents more than doubled to EUR 45 per m² from 2014 to 2024. As such, the per centage increase was almost three times more than in Frankfurt where prime rents recently reached EUR 47.50 per m². Meanwhile, Munich has not only replaced Frankfurt as the most expensive German office market with prime rents of EUR 54 per m²; it is ahead by a long way. Rents in Düsseldorf and Stuttgart have experienced above-average growth with a rise of around 75 per cent. Whereas the increase to EUR 33.50 per m² most recently in Stuttgart has been steadier, in Düsseldorf, it was concentrated in the period from 2022 to 2024. During those three years, prime rents on the Rhine shot up by almost 60 per cent to EUR 42 per m². The increase in neighbouring Cologne was smaller. The cathedral city has therefore replaced Stuttgart as the cheapest office market among top locations. Hamburg ranks between Cologne and Stuttgart with prime rents of EUR 35.3 per m². Rents in the Hanseatic city are characterized by a moderate and steady rise over time.

Strong, even steep rise in some cases in rents for modern offices
prime office rents, in EUR per m²



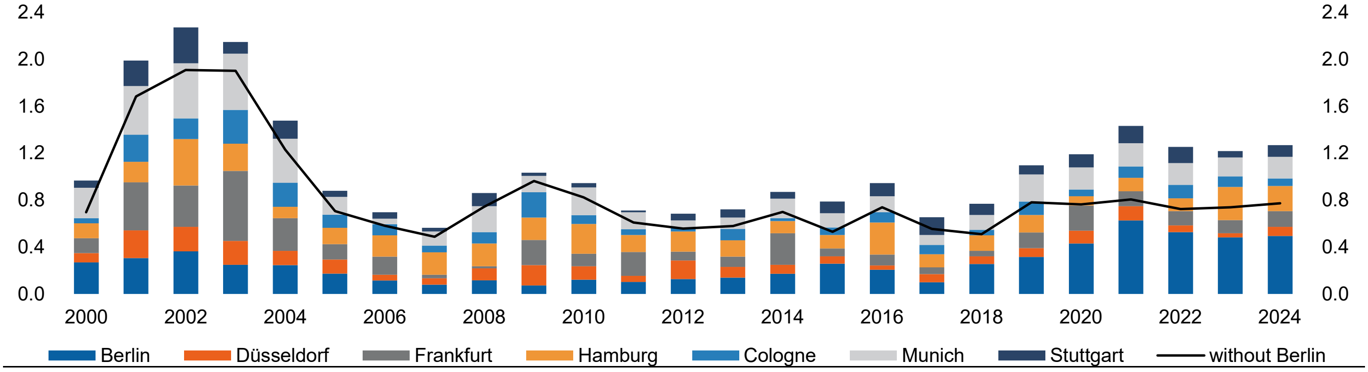
Source: bulwiengesa

Vacancy rates of the top-7 office markets have increased significantly
vacancy rate, in %



Source: bulwiengesa

Office stock has mostly increased through construction projects in Berlin
annual new available office space in million m²



Source: bulwiengesa

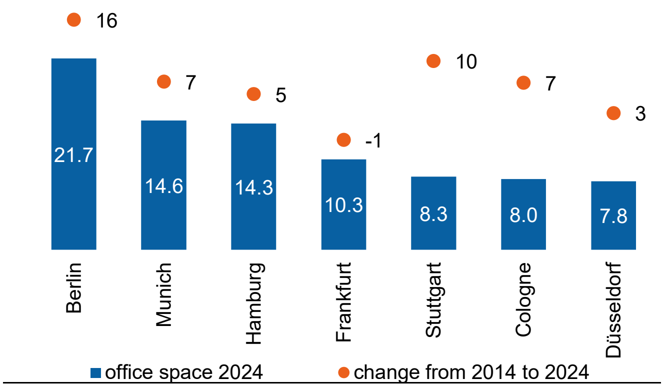
Increase in vacancy rate through more office construction? Berlin above all has benefited from new available space

At first glance, the rise in vacancy rate reflects not least more office construction for which there were also good reasons in light of rising rents and a declining supply up to 2019. On closer inspection though, it is clear that the increase in available new space has been concentrated in Berlin. From 2001 to 2010, Berlin's share of the new space was around 15 per cent whereas in the past five years, the figure was around 40 per cent. From 2020 onwards, annual available new space in the German capital was around 500,000 m². In contrast, available new space in the other six top locations has been quite stable for over 20 years now at a combined figure of around 700,000 m². In all, there were around 800,000 m² of available new space per annum in the top seven locations from 2005 to 2018. Thereafter the combined figure was around 1.2 million m² per annum.

Marked expansion in Berlin office stock, but slight contraction in Frankfurt

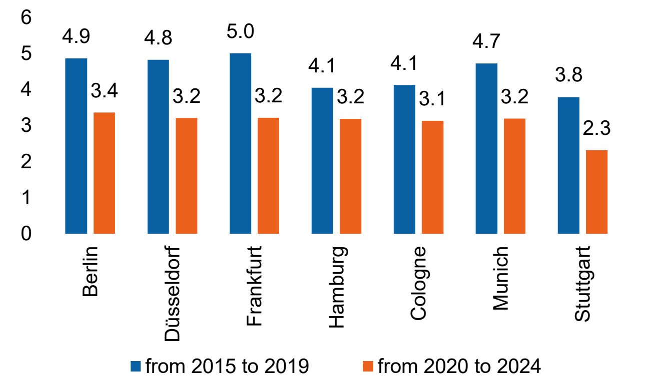
The differences in the amount of new space becoming available in the top seven office markets have also had an impact on the stock. There has been a marked increase in the stock in the last ten years, above all in Berlin (+16 per cent). Berlin is by far the biggest office market in Germany with almost 22 million m² of office space. The biggest markets in the remaining locations vary from just under 8 to almost 15 million m². Apart from Stuttgart, which has seen a ten-year increase of 10 per cent, expansion in the office stock has been at best moderate; it even shrank slightly in Frankfurt, reflecting not least some repurposing, e.g. for housing.

Marked differences in size and growth rates of local markets
office stock in million m², change in office space in %



Source: bulwiengesa

Marked fall in take-up everywhere since the pandemic
Take-up as % of office stock (5-year average)



Source: bulwiengesa

Although the many office projects in Berlin have gone hand-in-hand with an improved supply of sought-after modern office space, it appears that this is not leading to higher take-up. Indeed, annual take-up at all the locations – with the exception of Stuttgart – has fluctuated at around 3 per cent of the office stock. In contrast, prior to the pandemic, take-up was not only much higher, but there were also much more pronounced differences. Overall, take-up in 2024 only reached around 60 per cent of the record level in 2017 at just under 2.4 million m², reflecting a decline in demand for space and persistent economic doldrums.

Sharp fall in take-up of office space everywhere through pandemic and WFH

Outlook: Office prime rents and vacancy rates continue to rise

WFH and a flatlining economy are dampening demand for office space, a picture which is likely to continue in 2025 as well. In addition, there is the problem of the baby-boomer generations of the 1950s and 1960s coming to retirement age and possibly also AI which is set to take over human tasks through more advanced algorithms. However, this does not mean that the outlook for office space is bleak. The experience of the last few years has shown that there are advantages to employees working together in an office and that this cannot always be replaced entirely by online communication. In addition, it is far from being the case that every single company is in crisis, as record-high share prices illustrate. In this respect, the top locations occupy a special position among office markets through advantageous local factors. They are likely to grow and therefore enjoy relatively robust demand for office space.

The office remains central to the world of work

Better-than-average outlook for office markets in top locations

Against this background, demand is mostly for modern space for "new work" in "green" buildings. The good lettability of modern office space is gradually likely to go hand-in-hand with a growth in the surplus of older offices. Consequently, rents for modern space should continue to rise, while it will become more difficult to let older space. This year, though, increases in prime rents are likely to flatten in view of a weak economic trend.

Increase in prime rents likely to be flatter in 2025

However, even vacancy rates are unlikely to continue to rise unabated. Part of the structural change brought about by the pandemic has already been completed. In addition, in-person work is picking up again and available new space is likely to be in even shorter supply in the next few years than it has been in the recent past because of the crisis in the construction sector. At the same time, older buildings can be adjusted to present requirements or repurposed for alternative uses such as housing, hotels or education facilities. High rents and strong demand for housing and commercial space in the top locations are fundamentally good prerequisites for this.

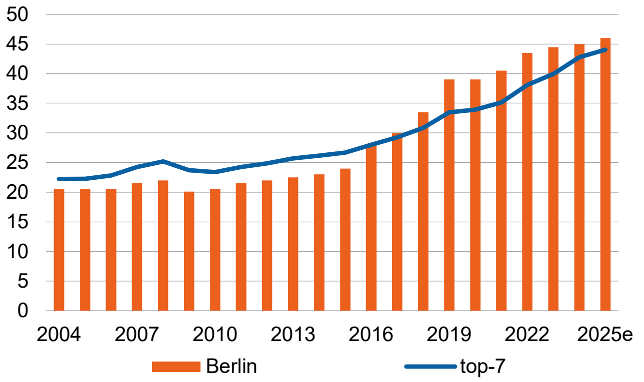
Older buildings in top locations stand a better chance in view of high rents and need for housing and commercial space

The new reality in the office market cannot be changed. However, a changed work landscape has confirmed the importance of the office as fundamental to communication. As such, office space should not be written off as an investment.

Little demand for investment in office space at the moment, but this could change

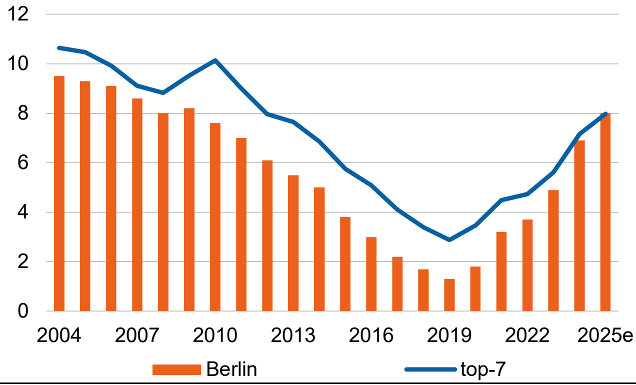
Overview of locations
Office Space in Berlin

Prime office rents
in EUR per m²



Source: bulwiengesa, DZ BANK forecast

Vacancy rate
in %

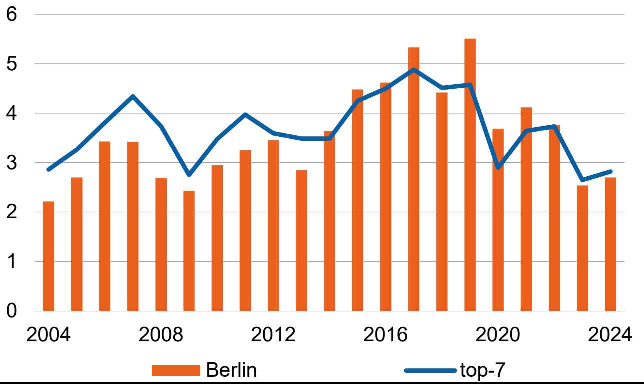


Source: bulwiengesa, DZ BANK forecast

Steep rise in prime rents has slowed down noticeably

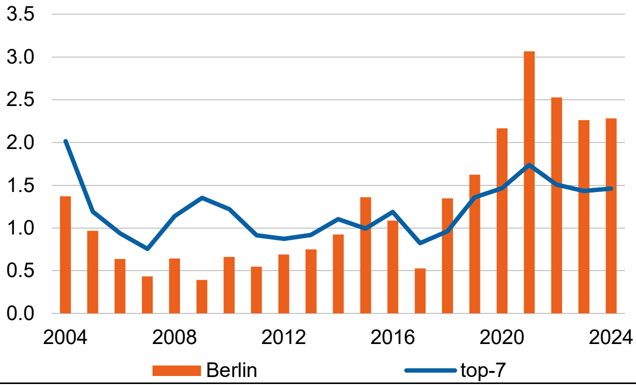
Berlin's upturn has led to strong expansion in Germany's largest office market which has a stock of almost 22 million m². Take-up in 2017 and 2019 even exceeded the 1 million m² mark. At present, however, the market in Berlin is a long way off its former record highs – a situation that is repeated in other office markets. At least, take-up in 2024 exceeded the previous year figure at 585,000 m², helped mainly by several large transactions involving public-sector occupiers. The Institute for Federal Real Estate (BImA) leased a number of offices, including space for the expansion of the Federal Chancellery and Federal Ministry for Building. However, large spaces were also leased by Deloitte and Delivery Hero. Weaker demand and extensive new building led to an increase in the vacancy rate to almost 7 per cent by 2024 after it had sunk to just over 1 per cent in 2019. However, construction activity – new space of around 400,000 m² is expected to become available in 2025 after a figure of around 500,000 m² last year – and therefore, the rise in the vacancy rate should now slow down gradually. After almost doubling within the space of ten years, prime rents hardly rose any further in 2024 – a fact which probably also reflects an improvement in the supply of modern space. Berlin is now the third most expensive office market behind Munich and Frankfurt with prime rents of EUR 45 per m².

Office space take-up
as % of the office space stock



Source: bulwiengesa

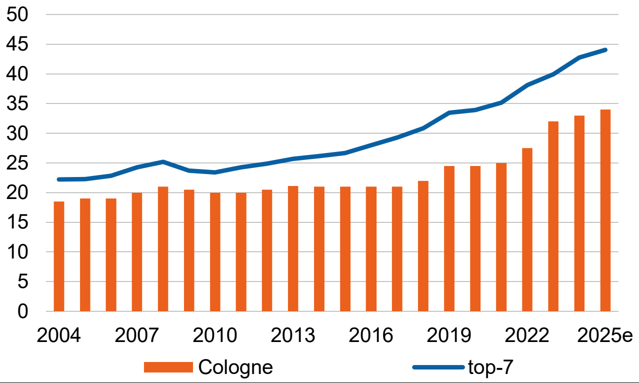
New office space
as % of the office space stock



Source: bulwiengesa

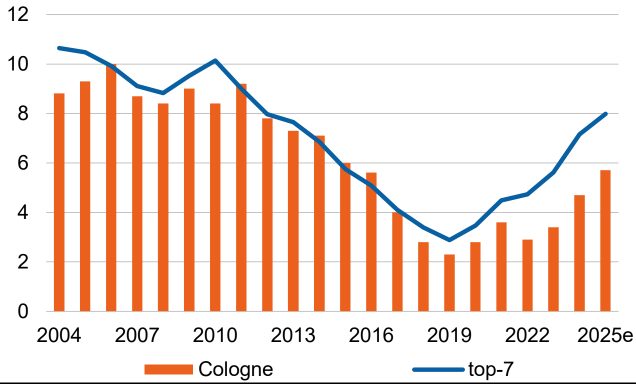
Office space in Cologne

Prime office rents
in EUR per m²



Source: bulwiengesa, DZ BANK forecast

Vacancy rate
in %



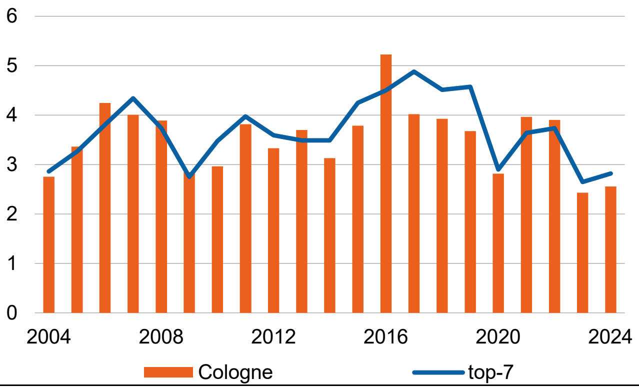
Source: bulwiengesa, DZ BANK forecast

Lowest vacancy rate of all the top German locations

The office market in the million-strong city of Cologne is on the modest side at just 8 million m². However, the market has posted solid results in the last few years. Firstly, it has the lowest vacancy rate among the top locations at 4.7 per cent; the rate has risen much slower since 2020. In 2024, though, there was a sharp increase in the rate, even in Cologne. Secondly, whereas prime rents stagnated in the past, they picked up again in the last few years. In 2024, it rose further to 33 euros per square meter compared to the previous year. In spite of the increase, Cologne remains the cheapest office locations behind Stuttgart. At 205,000 m², take-up in 2024 was only marginally better than the previous year. Nevertheless, it is still around one third below the long-term average, in spite of two large leasing transactions which came

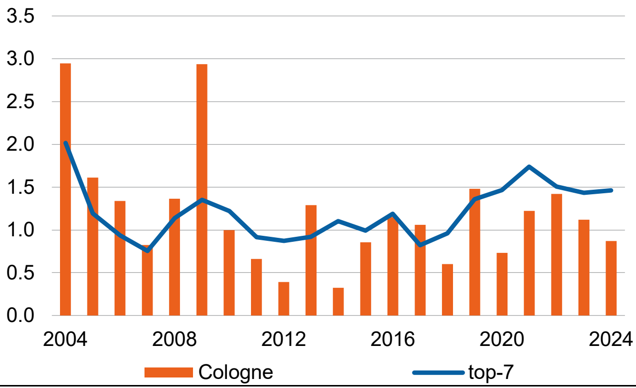
to a combined figure of over 50,000 m². Both transactions involved public sector occupiers (the City of Cologne, Rhineland Environmental Association (LVR) and the MesseCity/Deutz location. In all, however, modern office space is fairly scarce in Cologne in view of a fairly limited number of project developments in the past.

Office space take-up
as % of the office space stock



Source: bulwiengesa

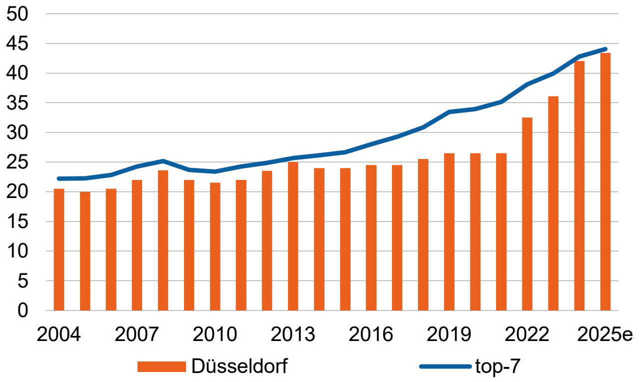
New office space
as % of the office space stock



Source: bulwiengesa

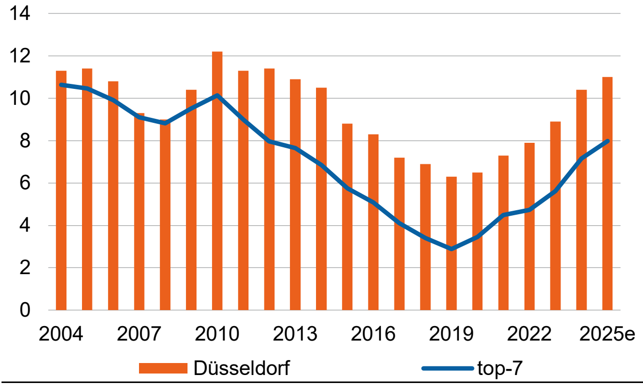
Office space in Düsseldorf

Prime office rents
in EUR per m²



Source: bulwiengesa, DZ BANK forecast

Vacancy rate
in %

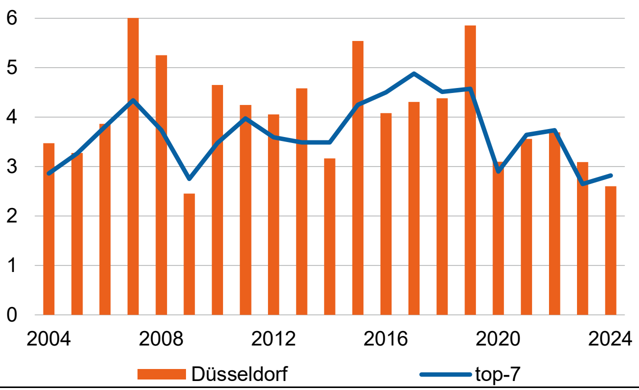


Source: bulwiengesa, DZ BANK forecast

Düsseldorf has the smallest office market of all the top locations at 7.8 million m², although it is not far behind Cologne and Stuttgart. Whereas prime rents in the other top locations have risen continuously in previous years, they remained fairly flat in Düsseldorf. Since 2022, however, huge interest in modern office space at a time of tight supply has pushed up prime rents in Düsseldorf to EUR 42 per m² most recently and they are now largely in line with the top location average. This sharp rise was not accompanied by a high take-up though. In the absence of large transactions, the figure of 200,000 m² in 2024 was even weaker than the previous year's 240,000 m². There was not a single deal in excess of 10,000 m² in 2024. The biggest transaction involved the building and property company Bau- und Liegenschaftsbetrieb NRW at just under 7,000 m². Unlike in the other top locations, take-up last year was not driven as much by the public sector with occupiers coming from a wide variety of sectors. Consultancy firms accounted for the largest market share in 2024, underlying their importance for the Dusseldorf office market. New building, vacant space and weaker leasing activity have led to a rise in the vacancy rate to more than 10 per cent. Frankfurt is the only city where the figure is marginally higher still.

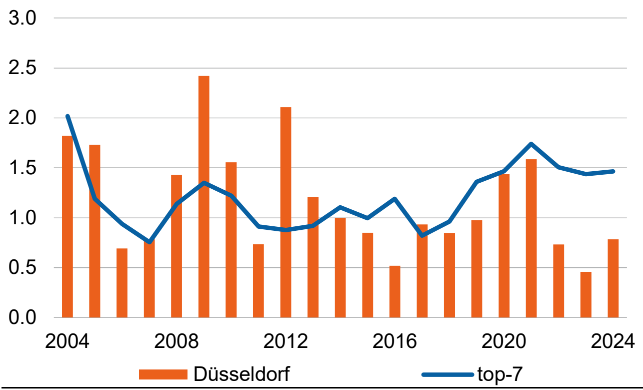
Sharp increase in prime rents since 2022

Office space take-up
as % of the office space stock



Source: bulwiengesa

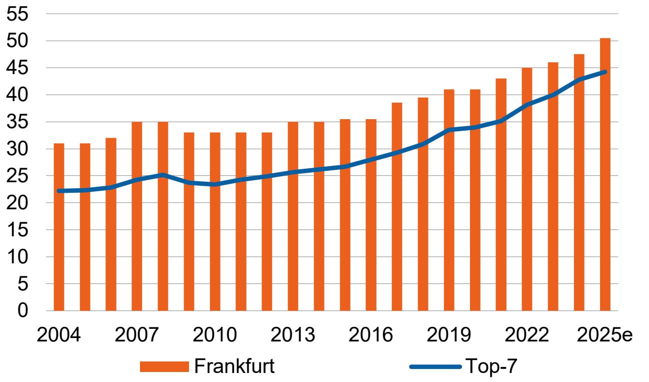
New office space
as % of the office space stock



Source: bulwiengesa

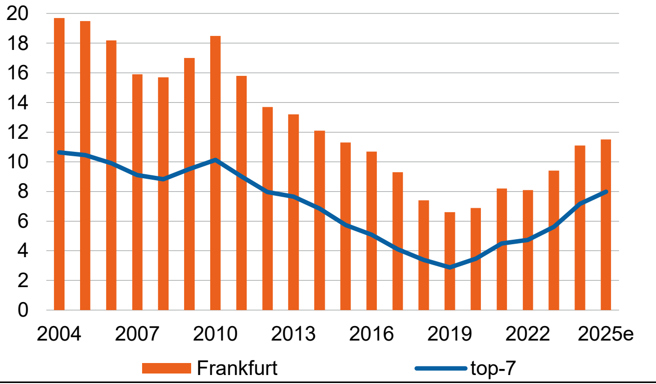
Office space in Frankfurt

Prime office rents
in EUR per m²



Source: bulwiengesa, DZ BANK forecast

Vacancy rate
in %

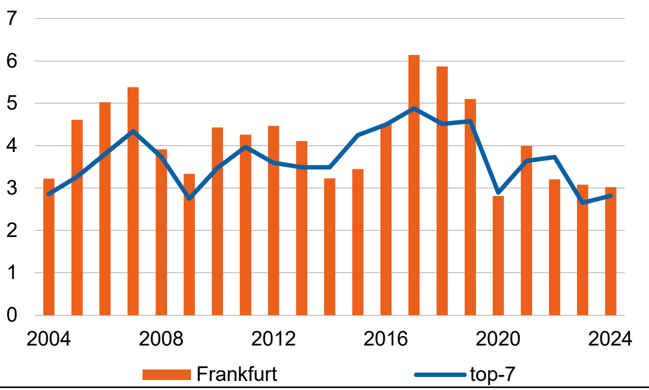


Source: bulwiengesa, DZ BANK forecast

Vacancy rate in Frankfurt surges to 11 per cent

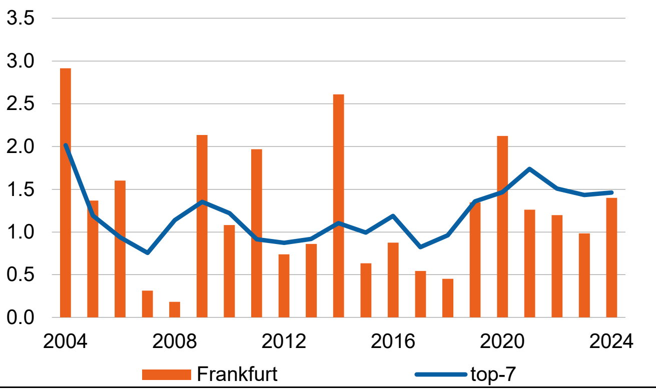
Frankfurt's office market is one of the largest in Germany with stock of slightly over 10 million m² and, for a long time, it also had the highest prime rents. In the last few years, though, it has been overtaken by Munich which now leads by a long way. Prime rents in Frankfurt reached EUR 47.50 per m² in 2024 (around 10 per cent below the level in Munich) and rose by 36 per over ten years – the slowest pace among top locations. As regards the future trend, the fact that the vacancy rate is now back up into two digits at 11 per cent of the office stock could have a dampening effect. Modern office space of the kind that will be available in the 205-metre high Central Business Tower, where construction began in 2024, is still easy to let. Commerzbank intends to use the new tower in addition to its headquarters at Kaiserplatz after its completion. Other locations will be closed down for this purpose. It seems that ING Diba is also planning to move. In contrast, interest in older office space, which is often decades old, is much lower. Generally muted demand for space in 2024 led to take-up of around 300,000 m² as in the previous year – less than half the level of 2017. Take-up in 2024 was bolstered by a large transaction of 37,000 m² involving the ECB: The European Banking Authority will be moving out of its present home in the Eurotower and into the modernized Gallileo tower. The major deals emerging in the banking sector are likely to stimulate the Frankfurt office market in the current year despite the weak economy. Office take-up and prime rents are likely to benefit from this.

Office space take-up
as % of the office space stock



Source: bulwiengesa

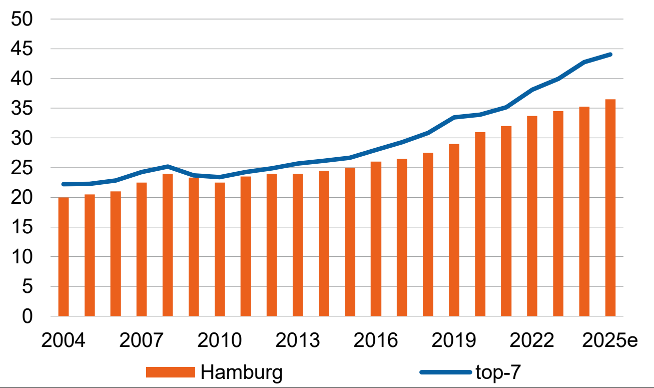
New office space
as % of the office space stock



Source: bulwiengesa

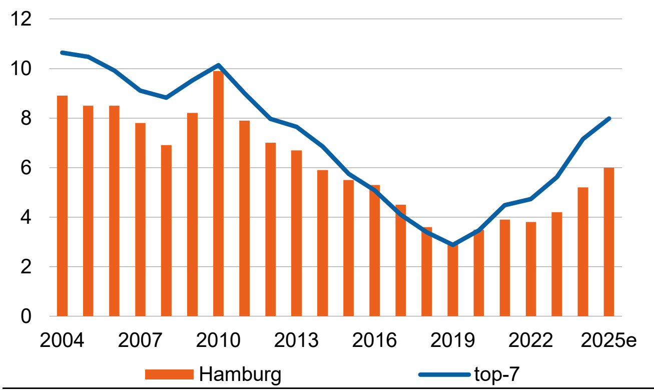
Office space in Hamburg

Prime office rents
in EUR per m²



Source: bulwiengesa, DZ BANK forecast

Vacancy rate
in %

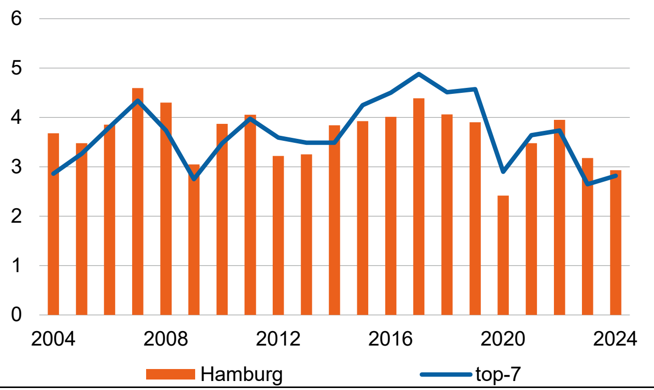


Source: bulwiengesa, DZ BANK forecast

Hamburg shines with low vacancy rate

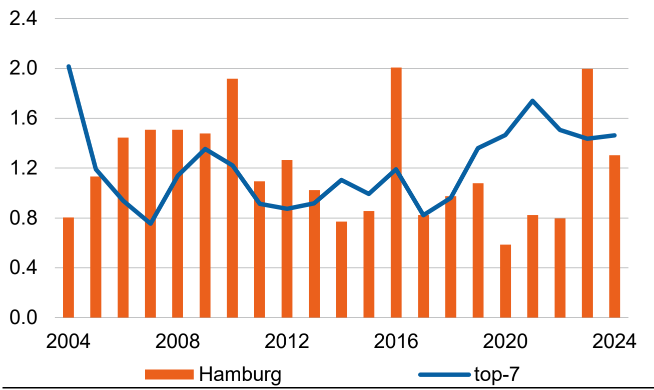
Hamburg is the third largest office market in Germany after Berlin and just behind Munich, with a stock of 14.3 million m². Many office projects have gone up in the HafenCity. However, as regards rents, the metropolis on the Elbe has fallen behind the two larger markets. More significant rental growth of the kind seen in Düsseldorf, Cologne or Stuttgart has also been absent from Hamburg. In 2024, prime rents reached EUR 35.30 per m². The ten-year increase of 44 per cent is well behind the top location average of 63 per cent. Nevertheless, the office market in Hamburg has done quite well, bolstered by the city's broadly based economy. The city stands out with a below-average vacancy rate of slightly more than 5 per cent which has risen relatively slowly since 2020. The decline in take-up driven by the structural change in the office market has also been limited. In 2024, as in the previous year, there was a reasonable take-up of 440,000 m² which was helped by large leasing transactions of 10,000 m² and over. The construction group Strabag will be moving its Hamburg headquarters to a new building – the BORX. Its current home in the twin office towers dubbed the "dancing towers", has been leased by the City of Hamburg (the public sector has dominated large transactions in 2024). Work at Germany's most famous building site, the Elbtower, could start up again in 2025 under the management of developer Dieter Becken. Further office space is due to go up in front of the 64-floor tower in the Grasbrook quarter.

Office space take-up
as % of the office space stock



Source: bulwiengesa

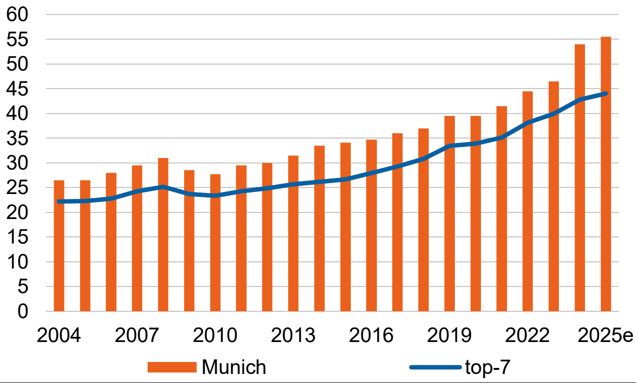
New office space
as % of the office space stock



Source: bulwiengesa

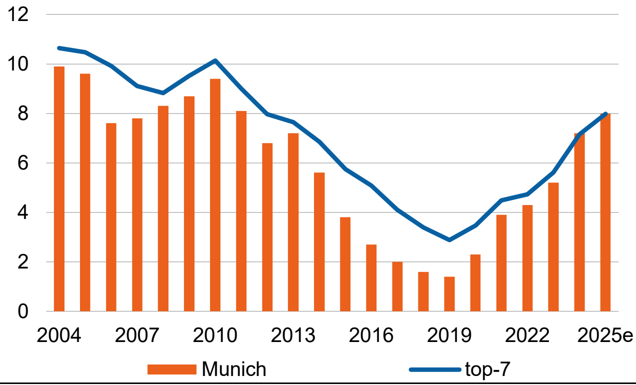
Office space in Munich

Prime office rents
in EUR per m²



Source: bulwiengesa, DZ BANK forecast

Vacancy rate
in %

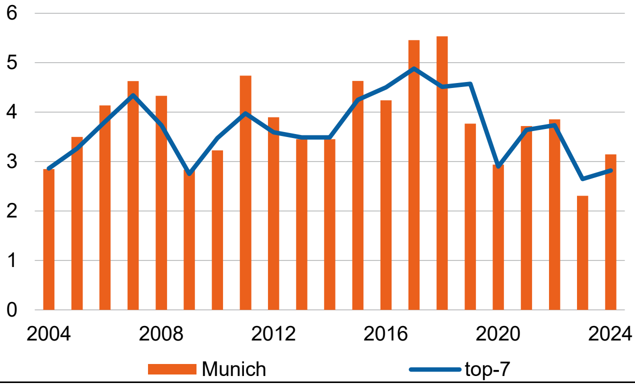


Source: bulwiengesa, DZ BANK forecast

Munich the most expensive office market in Germany since 2023

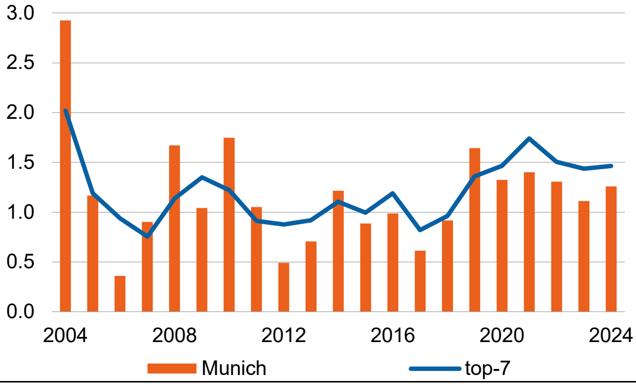
Munich has been the most expensive real estate market in all segments since 2023, after pushing Frankfurt into second place with a sharp rise in office rents. The rise in prime rents to EUR 54 per m² in 2024 is impressive not least because rents were already high. Munich's office market is benefiting from its location in Germany's strongest economic region. The fact that the location is home to leading and financially strong US IT giants such as Amazon, Apple, Google and Microsoft is testament to its potential. Prior to the pandemic, strong growth in office employment meant that available office space virtually dried up, leading to a sharp fall in the vacancy rate to under 2 per cent by 2019. However, the structural change in the office market has also led to a marked increase in vacant space in Munich, leading to a rise in the vacancy rate to just over 6 per cent by 2024. However, the figure is much lower in the city centre. One plus point was a noticeable year-on-year rise in take-up to 460,000 m² in 2024, driven not least by several large transactions of over 10,000 m² each. Occupiers were industrial companies from the IT sector along with public-sector bodies. Transactions often involved a reduction in relation to the amount of office space used previously.

Office space take-up
as % of the office space stock



Source: bulwiengesa

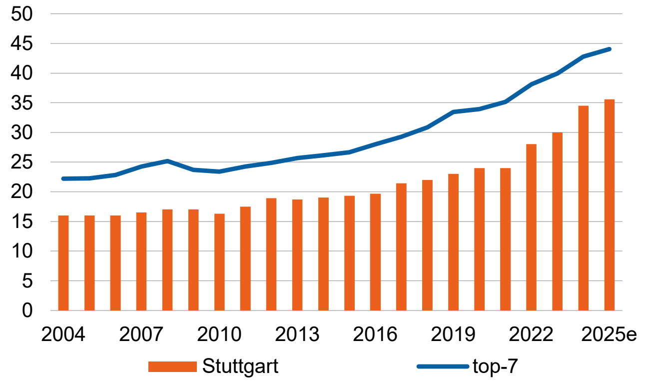
New office space
as % of the office space stock



Source: bulwiengesa

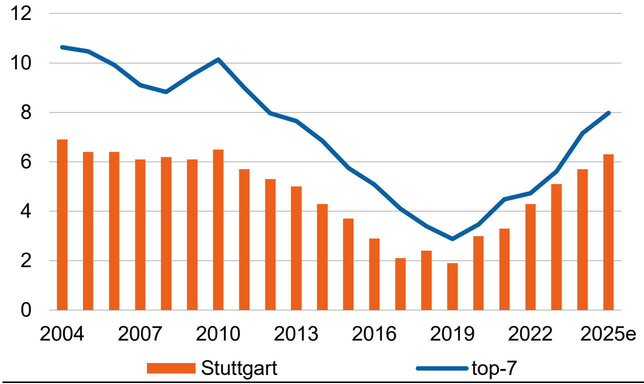
Office space in Stuttgart

Prime office rents
in EUR per m²



Source: bulwiengesa, DZ BANK forecast

Vacancy rate
in %

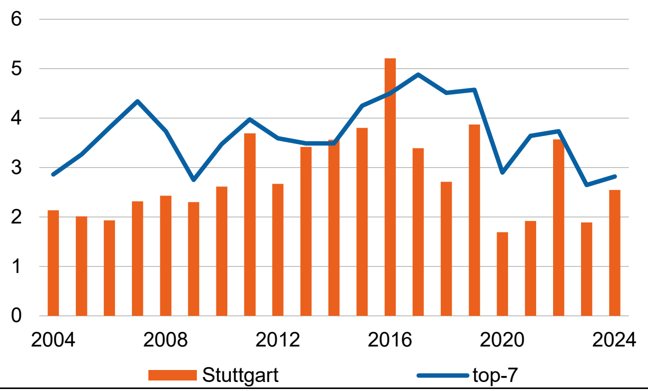


Source: bulwiengesa, DZ BANK forecast

Major importance of industry for the city also likely to weigh on the office market

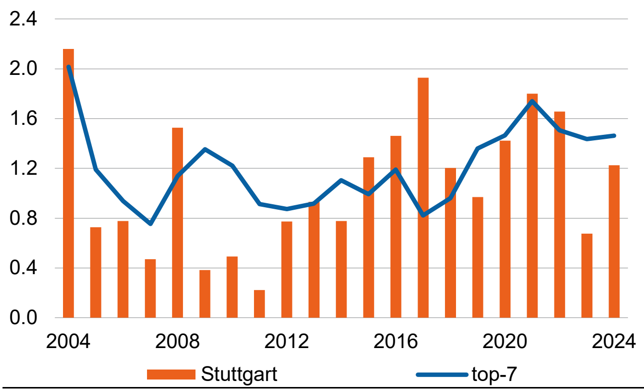
There has been fairly strong growth of over 10 per cent to 8.3 million m² in Stuttgart's office stock in the space of ten years. This puts the city in fifth place among the top locations, although Düsseldorf and Cologne are only just ahead. Unlike the other six top locations, Stuttgart's economy is heavily weighted towards industry and the proportion of people working in the manufacturing sector is roughly twice as high. The fact that the services sector is not quite so important is clear from mostly slightly more moderate take-up. This was no different in 2024. However, large deals involving public-sector occupiers (City of Stuttgart, Land Baden-Württemberg) led to a sharp rise in take-up against the previous year, even though it again remained below 200,000 m². On balance, space leased by public sector occupiers accounted for one third of take-up in 2024. Even so, as in the three previous years, there was a marked rise in prime rents to EUR 33.50 per m² in 2024. Ten-year rental growth is above average at around 75 per cent. The vacancy rate has now risen to almost 6 per cent. In view of the huge importance of the manufacturing sector and above all the automotive industry, Stuttgart as a location is being hit harder than other top locations by the weakness in the industrial sector. Cost pressure and job cuts at companies are also likely to dampen the trend in the office market going forward.

Office space take-up
as % of the office space stock



Source: bulwiengesa

New office space
as % of the office space stock



Source: bulwiengesa

MULTI-FAMILY HOUSES

Housebuilding crisis creates more tension in the housing market

Housing shortage: Politicians have acknowledged, but not solved the problems

The list of German deficiencies is long. However, dilapidated streets, delayed trains and mobile phone “dead zones” are less acute that an unsuccessful, month-long search for a flat. With vacancy rates in the zero point range, virtually no flats are available for rental in many large cities. Rents, and especially purchase prices, have also reached unaffordable levels, even for households with solid incomes. The problems are not new, but the solutions chosen by politicians have not worked. Instead of expensive housing subsidies, the focus has been on measures to regulate the market, such as the “rent brake” introduced in 2015. Initially the measures seemed to be working, with residential property investment in demand when interest rates were low. This is probably why warnings about new restrictions such as higher quotas for subsidized apartments or stricter building and energy efficiency standards fell on deaf ears.

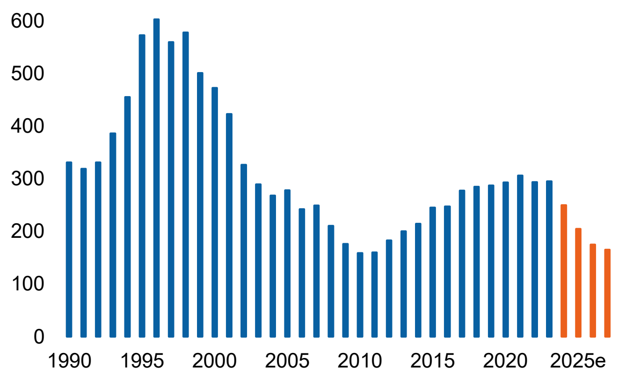
Housing market tensions aggravated further by weak new construction

However, a sharp rise in building and financing costs has brought housebuilding to a standstill. Instead of the promised increase in completed apartments per year from 300,000 to 400,000, the figure could fall by 40% to 175,000 by 2026. The decline corresponds roughly to the fall in the number of building permits; these are close to historical lows despite high demand for housing due to the immigration which Germany needs. Despite the rent brake, market tensions have led to a steady, and recently accelerated increase of nearly 6% per year in new contract rents. The growing divergence from existing rents, which have increased only slowly, makes moving house a less attractive option. Housing is being “hoarded”, with virtually no vacant flats available. Rental demand has also increased because high financing costs are making house purchases unaffordable for potential buyers.

After a slight correction, residential property prices have been rising since mid-2024

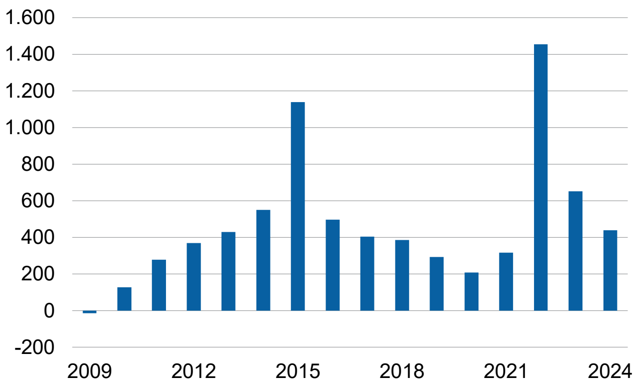
Because of the strained conditions in the housing market, the correction in property prices has been moderate. Between their mid-2022 maximum and spring 2024, residential property prices fell by 7 per cent, and prices of multi-occupancy homes by 10 per cent. Since then, residential property prices have already increased again. The correction has been focused on existing residential properties, while prices of new build premises have remained more or less steady. Price trends have diverged due to rising construction costs and the growing importance of energy efficiency.

Gloomy outlook for German housebuilding
dwelling completions in ‘000 units



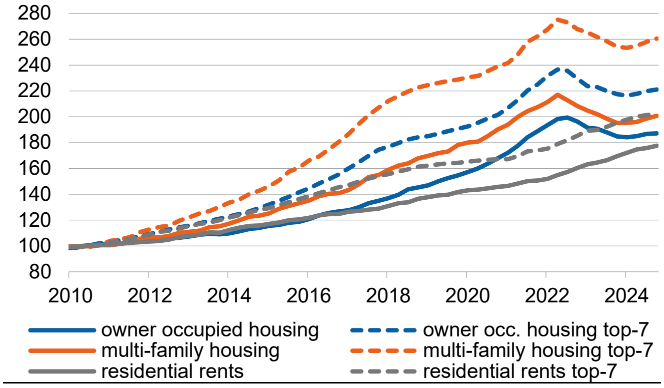
Source: Destatis, ifo Institute/Euroconstruct

If new building stalls, housing shortage will not only affect immigrants
net immigration in Germany, in ‘000 people



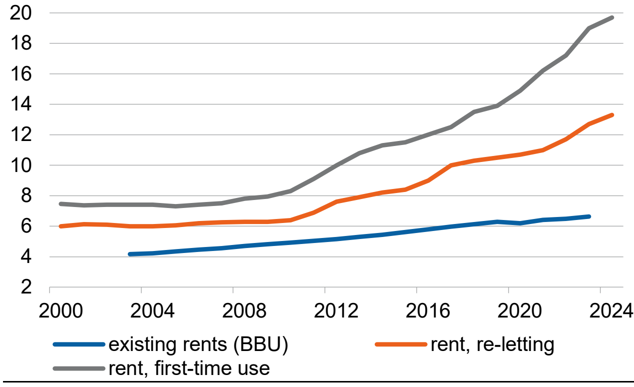
Source: Destatis

Steep rise in residential rents one factor in only moderate correction of property prices
purchase prices and residential rents, 2010 = 100



Source: vdp

Berlin as an example: Moving is unattractive, because the gap between existing and new contract rents is widening increasingly
residential rents in Berlin, in EUR/m²



Source: BBU Berlin-Brandenb. Housing Company Association, bulwiengesa

One major hurdle for housebuilding is high building costs, partly caused by high technical and energy standards, and often also the high demands of customers. However, large sections of the population can afford neither purchase prices nor rents for high-end construction. This is reflected in the rapid fall in the number of building permits issued. Construction is often only possible with subsidies.

Without subsidies, construction is becoming increasingly difficult in Germany

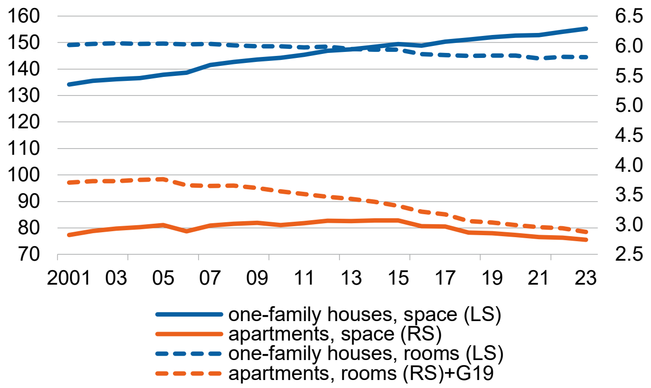
The situation in Japan shows that cheaper construction is possible. The Toyota car company is also active as a major provider of low-cost prefabricated houses. Decades ago, the company already started to apply the principles of efficient vehicle manufacture to industrially prefabricated houses. Unlike German prefab houses, no wooden components are used. Instead, modules which form complete rooms are mounted on a steel framework and assembled on the spot into a prefab house. However, the proportion of mass produced housing units in Germany is still small. Most homes are still constructed individually, and are of high-quality and fairly spacious.

Japan: Industrial production similar to the car industry

High building costs per m² multiplied by relatively large living space result in high overall costs per housing unit. On average, a new single-family home has 155 m² of living space and six rooms. Although a downward trend in multi-family houses

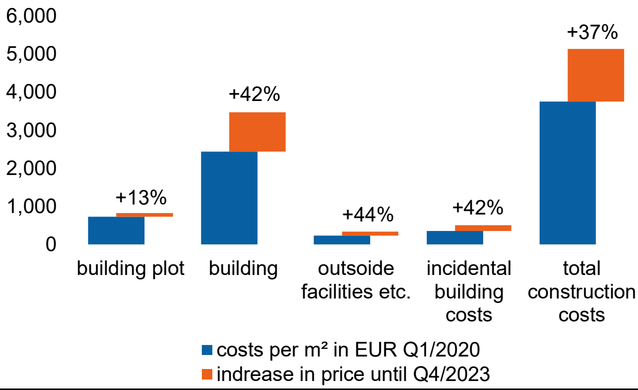
Building standards and housing requirements are both high in Germany

Size of apartments is shrinking, but they generally remain very spacious
LS: average living space in m² per new build housing unit
RS: average number of rooms per new build housing unit



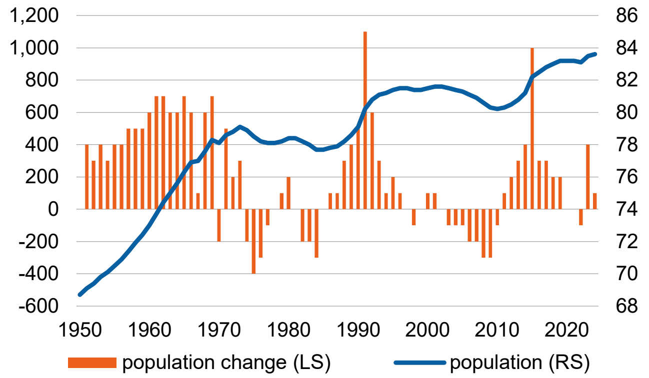
Source: Destatis

Construction of new apartments has also become rapidly more expensive within a few years
costs of new residential construction in large cities, in EUR per m²



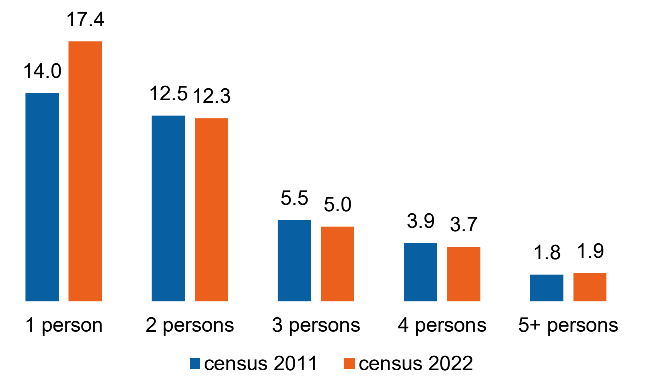
Source: Institute for Sustainable Construction in Germany (ARGE)

Waves of immigration in recent decades have boosted population numbers which were otherwise mainly stagnating
LS: in '000 people yoy, RS: in million people



Source: Institute for Sustainable Construction in Germany (ARGE)

Shift in population structure: Single households becoming much more numerous, while the number of large households is stagnating
households based on number of persons, in millions



Source: Destatis/Census

is evident, apartments with on average 75 m² and three rooms also tend to be larger than needed. Data from the 2022 census compared to the previous survey shows that the increase in the number of private households was almost totally attributable to the growth in single-person households. Single households now account for a proportion of 41 per cent throughout Germany, and even 51 per cent in the top locations.

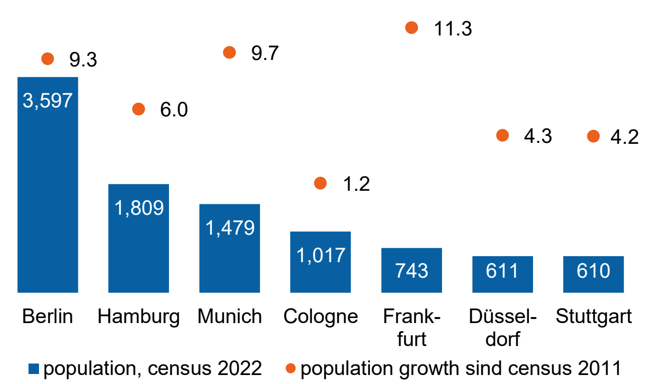
Smaller apartments needed for large proportion of single households

New building in top locations already insufficient before the construction crisis

Housing demand has already been growing strongly for many years, particularly in large cities. In addition to smaller households, continuing migration from within Germany and abroad is also a factor here. Census data for 2022 shows population growth of 7.3 per cent in the top locations compared to 2011, which is significantly higher than the overall growth of 3.1 per cent in Germany. The populations of the top locations grew by 675,000 to almost 10 million in this period. Growth rates in the seven top locations diverged widely, ranging from virtual stagnation in Cologne to an increase of 11 per cent in Frankfurt.

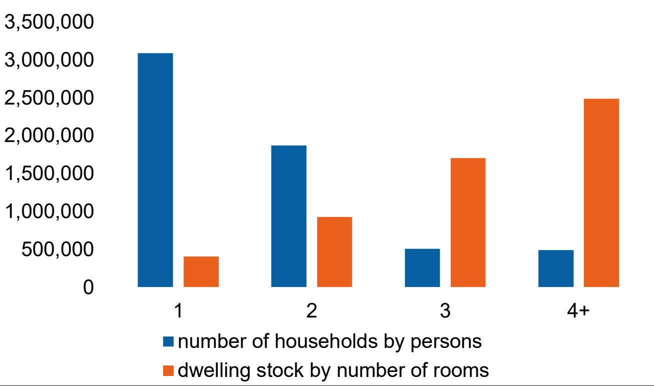
Top locations have grown strongly, but at varying rates

Not all top locations have shown strong population growth in recent years
inhabitants in '000, population growth in % (from 2011 to 2022)



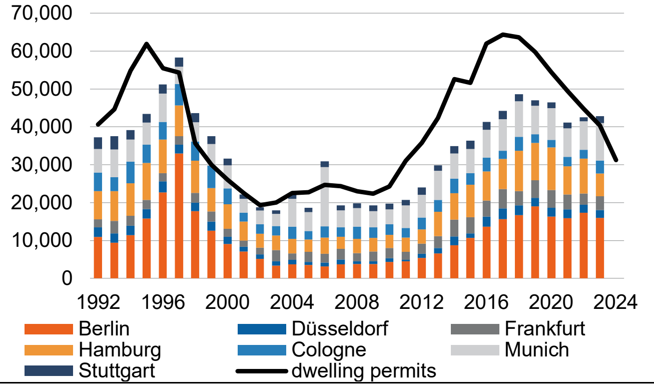
Source: Destatis / Zensus

Mismatch: Despite many single households, apartments are larger in housing markets of top locations
number of households/apartments (cumulative over top locations)



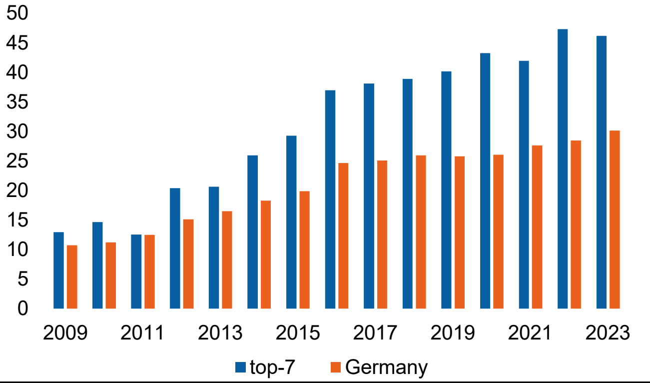
Source: bulwiengesa

Housebuilding gained momentum strongly, but is already faltering again
Completed apartments and building permits



Source: bulwiengesa, statistical offices of German municipalities

Construction of smaller apartments now much more important
share of one and two room apartments, in %



Source: bulwiengesa

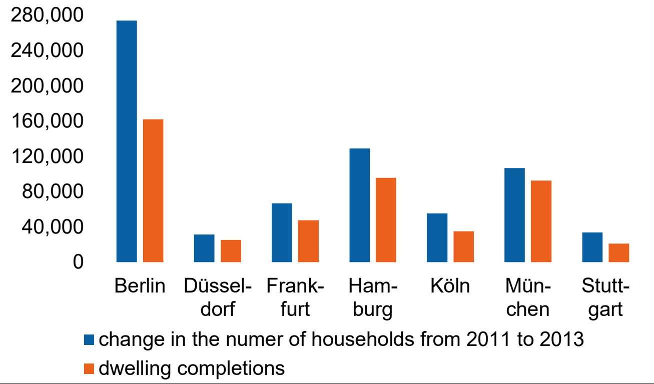
No. of completions already gradually declining since 2018

High demand for new, and particularly for smaller apartments is clearly reflected in new build figures. Whereas in 2010, only about 20,000 new apartments were built in the seven cities, by 2018 the number of completions had risen to nearly 50,000. By 2023 the figure had then declined to 40,000. However, in 2024, and particularly in subsequent years, the number of completions is likely to fall again sharply. This is reflected in the sharp fall in building permits for apartments, down by more than half in 2024 to 31,000 from their peak 2017 level. In response to the high demand for smaller apartments, the proportion of one and two-room flats has grown steadily. These now account for nearly half the apartments built in the seven largest cities compared to only around 30 per cent in Germany as a whole.

Despite some strong new build activity, number of completions falls short in all top locations

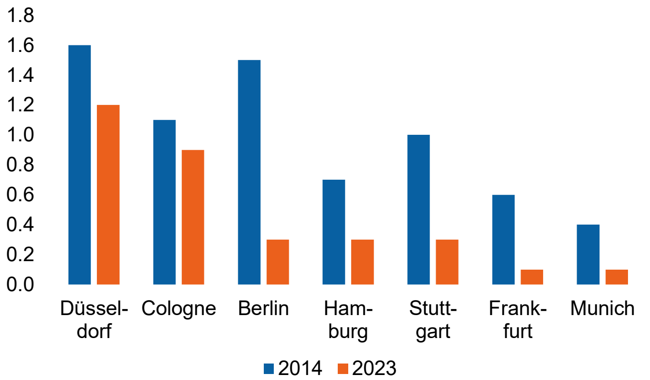
Housebuilding in the seven cities reached a high level in some places. For example, an average of around 5 apartments per 1,000 inhabitants were completed from 2019 to 2023 in Berlin, Frankfurt, Hamburg and Munich. In Düsseldorf the figure was still about 3.5, but only just over 2.5 in Cologne and Stuttgart. However, despite an increase in the number of completions, new construction was insufficient in all of the top locations. Since 2011, the number of private households has grown more strongly everywhere than the cumulative number of completed apartments.

Construction vs. housing demand: No. of completed apartments lags growth in households everywhere, particularly in Berlin
No. of households / No. of completions



Source: bulwiengesa

Available apartments in short supply: Vacancy rate in housing market ranges from very low to virtually non-existent
Active market vacancy rate, in %



Source: CBRE/empirica

Because of insufficient new building, the active market vacancy rate - apartments immediately available for rent excluding properties which are vacant due to renovation etc. – has fallen in all locations. Vacancy rates of less than 1 per cent (2023) are also well below the range of 2 to 3 per cent estimated for a functioning housing market. In Berlin, Hamburg and Stuttgart (in each case 0.3 per cent) and in Frankfurt and Munich (in each case 0.1 per cent), there are virtually no available apartments for house hunters.

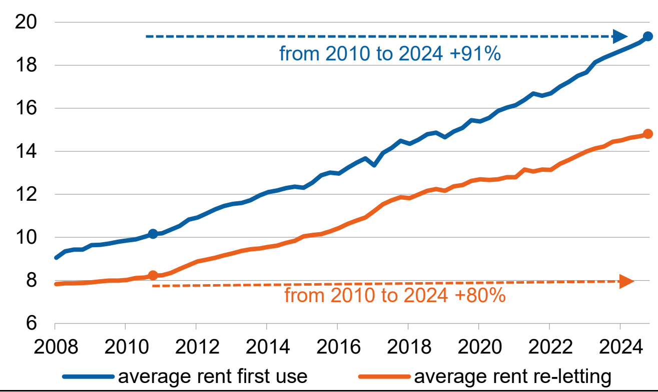
Vacancy rates in housing markets of Frankfurt and Munich fell to virtually zero

Housing shortage drives up rents and purchase prices

The severe shortage of available apartments has accelerated the upward trend in rents. The number of apartments on offer in the housing market has been contracting for some years despite rising rents. One factor is the already mentioned widening gulf between rents in new and existing rental contracts. Added to this are regulatory hurdles such as the rent brake and environmental protection rules which make the letting of ordinary living space less attractive – for example because there is less potential for rent growth or there are legal risks. One consequence is that small landlords are withdrawing from the market. Another is the switch to short-term rentals, for example via portals such as Airbnb, or to furnished accommodation. The reasons for this are likely to be the expectation of higher revenues and the avoidance of rent regulation.

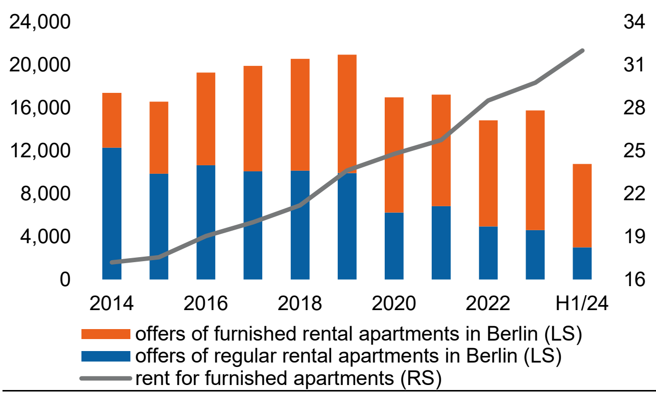
Supply of rented housing has contracted

High demand, virtually no supply. Initial rents in top locations rise even faster than rents for re-lets
residential rents, in EUR/m²



Source: bulwiengesa

Berlin: For small flats in particular (up to 50m²), the supply of expensive furnished flats is having a negative impact on ordinary rented flats
LS: number of existing flats available for rent, RS: rent in EUR/m²



Source: BNP Paribas Real Estate

The upward trend in rents for apartments in top locations had already started before purchase prices began to increase. Residential rents have already been rising steadily for 20 years. While the annual inflation rate averaged around 2 per cent from 2004 to 2024, rents rose faster by around 3.5 per cent. Since 2010, initial rents have increased by on average 91 per cent in the seven top locations. The rate of increase in rents for re-lets was only slightly lower at 80 per cent. The rent brake, which applies to apartments built up to September 2014, and which therefore covers the largest proportion of the existing stock, has therefore at best slightly mitigated the pace of rents.

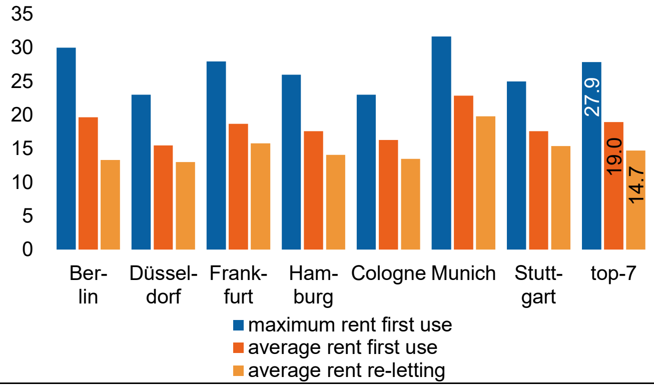
Rents have grown nearly twice as fast as inflation in the long term

The continuing upward trend has taken rents to a very high level in absolute terms. In the prime segment of the housing market Berlin has reached EUR 30 per m², and Munich is even slightly more expensive. The average initial rent in the top

Average initial rents in top locations moving towards EUR 20 per m²

Residential rents in top locations excessively high

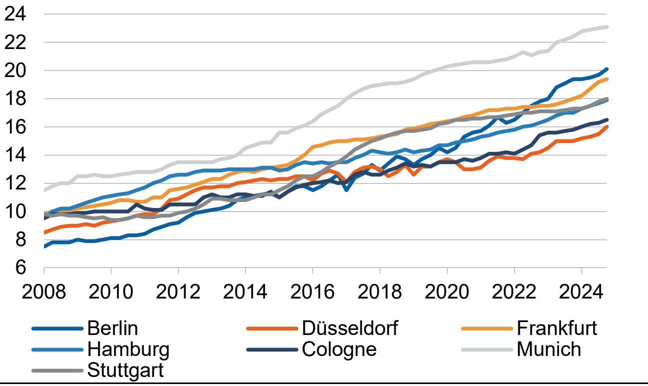
residential rents, in EUR/m²



Source: bulwiengesa

Among the top locations, Düsseldorf and Cologne are still comparatively inexpensive

average residential rent first use, in EUR/m²

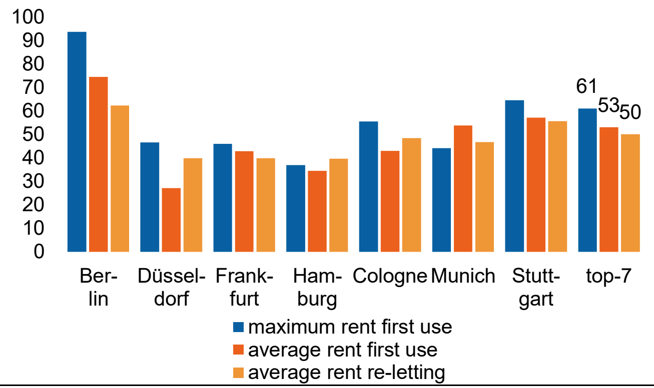


Source: bulwiengesa

locations was EUR 19 per m² in 2024. The range per m² thus extends from EUR 15.5 in Düsseldorf to more than EUR 23 in Munich. The average figure for relets in the top locations in 2024 was still just shy of EUR 15 per m². Rents for existing apartments ranged from EUR 13 per m² in Düsseldorf to more than EUR 20 in Munich. Based on current rent levels plus additional costs, private households need a substantial income to remain below the figure of 40 per cent set by Eurostat at which housing costs impose an excessive burden.

Average rents in top locations up by around 50 per cent within ten years

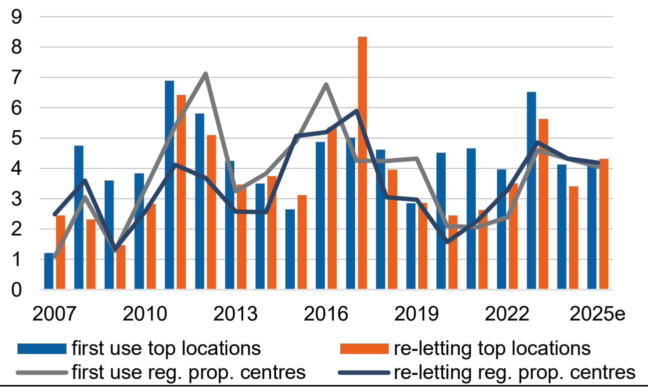
increase of residential rents, in % from 2014 to 2024



Source: bulwiengesa

Residential rents have been increasing relatively strongly for years, not only in the top locations

Rent increase, in % compared to previous year

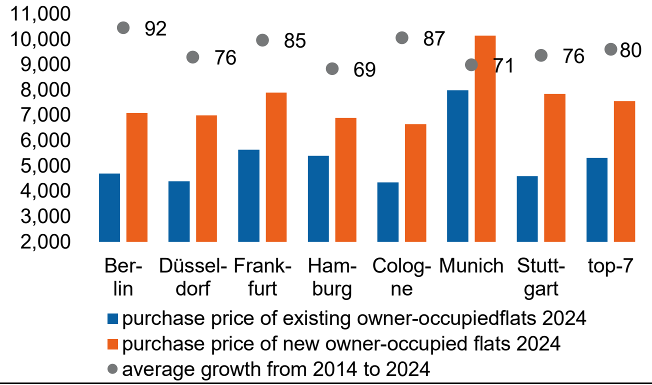


Source: bulwiengesa, DZ BANK Research forecast

High purchase prices for owner-occupied flats shift demand onto rental market

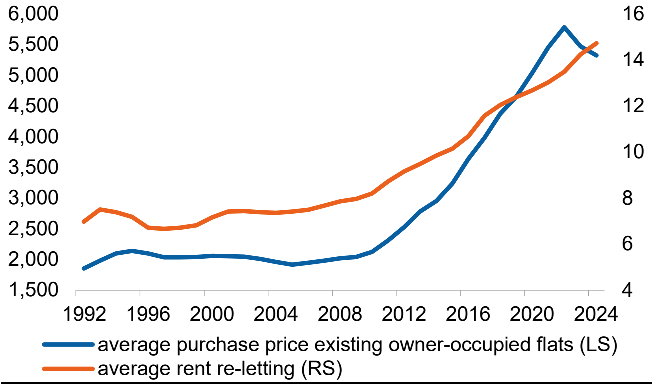
Purchase prices for residential properties have increased even more steeply than rents in the top locations, but suffered a major setback due to the hike in interest rates in 2022. As prices have fallen, purchasing a property has initially seemed more attractive than paying rent, however the combination of continuing high prices and higher interest rates is severely restricting the number of potential buyers. Demand for rented apartments can still therefore be expected to increase as purchasing a property becomes unaffordable for many potential buyers.

Despite a price drop caused by interest rates, purchase prices have risen sharply within ten years
purchase prices in EUR/m², price increase from 2014 to 2024 in %



Source: bulwiengesa

Purchase prices and rents converge again due to price correction
LS: purchase price in EUR/m², RS: Rent in EUR/m²



Source: bulwiengesa

Energy-efficiency renovation requires high investment from building owners

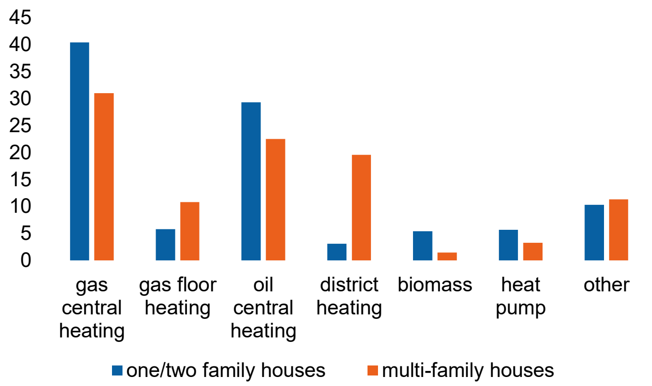
In addition to affordable prices and rents, reducing greenhouse gases is a major issue for the housing market. Contributory factors are, on the one hand, EU directives such as the EU Taxonomy for buildings and the so-called “heating law” (Building Energy Act, GEG). On the other hand, property owners are obliged to take account of the sustainability criteria of banks and investors. Below the line this leads to high investment in the energy-efficiency renovation of the mainly old stock of residential properties, most of which also uses fossil fuels for heating. The pressure on property owners is intensified because landlords have to pay up to 95 per cent of a CO_2 levy if energy efficiency is poor. It remains to be seen what will happen to the unpopular “heating law” after the change of government. Climate change and market pressure mean that there is no alternative to the decarbonization of residential buildings.

Decarbonization of building stock remains a major challenge for owners

One positive factor for landlords is that, under Section 559 of the German Civil Code (BGB), renovation costs can be passed on to tenants. This can be applied to up to 8 per cent of modernization costs on a long-term basis. Within six years, rents can

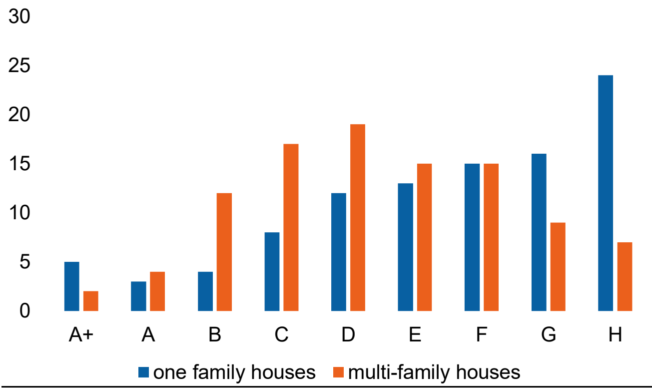
Modernization costs can be passed on in rent

Oil and gas heating predominates in housing stock
proportion of buildings in % (2023)



Source: German Association of Energy and Water Industries (BDEW)

Multi-occupancy homes more energy-efficient than single-family houses
Proportion of energy efficient classes in % (2022)



Source: Federal Ministry for Economic Affairs and Energy (BMWi) and International Real Estate Business School (IREBS) be increased by a maximum of EUR 3 per m² – or by a maximum of EUR 2 for cold rents up to EUR 7 per m². The Building Energy Act (GEG) passed in 2023 allows for a separate levy of up to 10 per cent (to a maximum of EUR 0.50 per m²) for the installation of climate-friendly heating, provided subsidies have been used. The resulting reduction in heating costs should at least partly offset the increase in cold rent for tenants.

Outlook: Supply of available housing contracts further, driving up rents

Solutions to the housing shortage are expensive, will take time, or will meet with resistance

Housing will be a “hot potato” for the next German government, since the ongoing housing shortage carries the risk of social tensions. The initial starting point would be simplified building regulations, following on from the unfinished plans of the previous government – the amendment to Building Code and Building Type E. However, deregulation of construction will be a lengthy process given the many regulations and responsibilities shared between the government, the federal states and local authorities. One encouraging initiative is the “Hamburg Standard”, which is designed to make construction significantly cheaper within the framework of existing building law and can therefore be implemented quickly. Subsidies such as interest rate reductions, a lower VAT rate on construction services or allowances for land transfer tax would help immediately, but empty public coffers make it difficult to implement measures that cost billions. More targeted regulation of rents is even more difficult. The rent brake would in any case expire in 2025, however changes to the regulation of rents could trigger major resistance.

Housing shortage, high rents and economic crisis: rents will increase by around 4 per cent in 2025

Tensions in the housing market will continue to increase for the time being as a result of the construction crisis. Conditions are only expected to improve incrementally, for example when building costs start to increase more slowly, obstacles to construction are removed, and there is greater digitalization and progress with modular construction. Much lower interest rates are fairly unlikely. The housing shortage is therefore likely to persist in 2025, counterbalanced by high demand due to immigration, demographic change and the unaffordability of purchasing owner-occupied properties. Rents will therefore continue to increase sharply. We expect annual rent growth of around 4 per cent in the top locations in 2025. The supply shortage will stand in the way of a slower increase, while a more rapid rise will be prevented by already high rents and ongoing economic weakness.

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 per cent 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 centres, namely Augsburg, Bremen, Darmstadt, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mainz, Mannheim, Münster and Nuremberg.
Top-7	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

Imprint

This study has been carried out by DZ BANK AG, Research and Economy Division, on behalf of and in cooperation with DZ HYP AG

Published by:
DZ HYP AG

Hamburg Head Office
Rosenstrasse 2, 20095 Hamburg
Phone +49 40 3334-0

Münster Head Office
Sentmaringer Weg 1, 48151 Münster
Phone +49 251 4905-0

Homepage: www.dzhyp.de
E-Mail: info@dzhyp.de

Represented by the Board of Managing Directors:
Sabine Barthauer (CEO), Jörg Hermes, Stefan Schrader

Chairman of the Supervisory Board: Johannes Koch

Head office of the company:
Registered as public limited company in Hamburg,
Commercial Register HRB 5604 and Münster, Commercial Register HRB 17424

Competent supervisory authorities:
DZ HYP AG is subject to the supervision of the Federal Financial Supervisory Authority (60439) and the European Central Bank (ECB).

VAT ident. no.: DE 811141281

Protection schemes:
DZ HYP AG is a member of the officially recognised BVR Institutssicherung GmbH and the additional voluntary Sicherungseinrichtung des Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (Protection Scheme of the National Association of German Cooperative Banks): www.bvr-institutssicherung.de
www.bvr.de/SE

Responsible for the contents:
Anke Wolff, Head of Communications,
Marketing & Events

RECYCLED
Papier aus Recyclingmaterial
FSC® C107139
FSC www.fsc.org

I. Mandatory Disclosures for Other Research Information and further Remarks

1. Responsible Company

1.1 This Other Research Information has been prepared on behalf of and in cooperation with DZ HYP AG by DZ BANK AG Deutsche Zentral-Genossenschafts-bank, Frankfurt am Main (DZ BANK) as an investment firm.
Other Research Information is independent client information which does not contain any investment recommendations for specific issuers or specific financial instruments. Such information makes no allowance for any individual investment criteria.

1.2 The mandatory disclosures for Research Publications (Financial Analyses and Other Research Information) as well as further remarks, especially regarding the Conflicts of Interest Policy of DZ BANK Research, used methods, procedures and statistics, can be read and downloaded free-of-charge under www.dzbank.com/disclosures.

2. Competent Supervisory Authorities

DZ BANK is supervised as a credit institution and as an investment firm by:

– **European Central Bank - www.ecb.europa.eu**
Sonnemannstrasse 20 in 60314 Frankfurt / Main and
– **Federal Financial Supervisory Authority (BaFin) - www.bafin.de**
Marie-Curie-Strasse 24 - 28 in 60349 Frankfurt / Main

3. Independent Analysts

3.1 The Research Publications (Financial Analyses and Other Research Information) of DZ BANK are independently prepared by its employed analysts or by competent analysts commissioned in a given case on the basis of the binding Conflicts of Interest Policy.

3.2 Each analyst involved in the preparation of the contents of this Other Research Publication confirms that
– this Research Publication represents his independent specialist evaluation of the analysed object in compliance with the Conflicts of Interest Policy of DZ BANK and
– his compensation depends neither in full nor in part, neither directly nor indirectly, on an opinion expressed in this Research Publication.

4. Updates and Validity Periods for Other Research Information

4.1 The frequency of updates of Other Investment Information depends in particular on the underlying macroeconomic conditions, current developments on the relevant markets, the current development of the analyzed companies, measures undertaken by the issuers, the behavior of trading participants, the competent supervisory authorities and the competent central banks as well as a wide range of other parameters. The periods of time named below therefore merely provide a non-binding indication of when an updated investment recommendation may be expected.

4.2 No obligation exists to update an Other Investment Information. If an Other Research Information is updated, this update replaces the previous Other Research Information with immediate effect.
If no update is made, investment recommendations end / lapse on expiry of six months. This period begins on the day the Other Investment Information was published.

4.3 In a given case, updates of Other Research Information may also be temporarily suspended without prior announcement on account of compliance with supervisory regulations.

4.4 If no updates are to be made in the future because the analysis of an object / certain angle is to be discontinued, notification of this shall be made in the final publication or, if no final publication is made, the reasons for discontinuing the analysis shall be given in a separate notification.

5. Avoiding and Managing Conflicts of Interest

5.1 DZ BANK Research has a binding Conflicts of Interest Policy which ensures that the relevant conflicts of interest of DZ BANK, the DZ BANK Group, the analysts and employees of the Research and Economics Division and persons closely associated with them are avoided, or - if such interests are effectively unavoidable - are appropriately identified, managed, disclosed and monitored. Materiel aspects of this policy, which can be read and downloaded free-of-charge under www.dzbank.com/disclosures are summarized as follows.

5.2 DZ BANK organizes its Research and Economics Division as a confidentiality area and protects it against all other organizational units of DZ BANK and the DZ BANK Group by means of Chinese walls. The departments and teams of the Division that produce Financial Analyses are also protected by Chinese walls and by spatial separation, a closed doors and clean desk policy. Beyond the limits of these confidentiality areas, communication may only take place in both directions according to the need-to-know principle.

5.3 Other theoretically feasible, information-based personal conflicts of interest among employees of the Research and Economics Division and persons closely associated with them are avoided in particular by the measures explained in sub-paragraph 5.2 and the other measures described in the policy.

5.4 The remuneration of employees of the Research and Economics Division depends neither in whole nor in the variable part directly or materially on the earnings from investment banking, trade in financial instruments, other securities related services and / or trade in commodities, merchandise, currencies and / or on indices of DZ BANK or the companies of the DZ BANK Group.

5.5 DZ BANK and companies of the DZ BANK Group issue financial instruments for trading, hedging and other investment purposes which, as underlying instruments, may refer to financial instruments, commodities, merchandise, currencies, benchmarks, indices and / or other financial ratios also covered by DZ BANK Research. Respective conflicts of interest are primarily avoided in the Research and Economics Division by means of the aforementioned organizational measures.

6. Recipients and Sources of Information

6.1 Recipients

Other Research Information of DZ BANK is directed at eligible counterparties as well as professional clients. They are therefore not suitable for dissemination to retail clients unless (i) an Other research Information has been explicitly labelled by DZ BANK as suitable for retail clients or (ii) is disseminated by an investment firm properly authorized in the European Economic Area (EEA) or Swiss to retail clients, who evidently have the necessary knowledge and sufficient experience in order to understand and evaluate the relevant risks of the relevant Other Research Information.
Other Research Information is authorized for dissemination by DZ BANK to the aforementioned recipients in in Member States of the European Economic Area and Switzerland.
It is neither allowed to provide Other Research Information to customers in the United States of America (USA) nor to conclude corresponding transactions with them.
The dissemination of Other Research Information in the Republic of Singapore is in any case restricted to DZ BANK AG Singapore Branch.

6.2 Main Sources of Information

For the preparation of its Research Publications, DZ BANK uses only information sources which it considers itself to be reliable. However, it is not feasible to make own checks of all the facts and other information taken from these sources in every case. If in a specific case, however, DZ BANK has doubts over the reliability of a source or the correctness of facts and other information, it shall make specific reference to this in the Research Publication.

The main sources of information for Research Publications are:

Information and data services (e.g. Reuters, Bloomberg, VWD, FactSet, Markit), licensed rating agencies (e.g. Standard & Poors, Moody's, Fitch, DBRS), specialist publications of the sectors, the business press, the competent supervisory authorities, information of the issuers (e.g. annual reports, securities prospectuses, ad-hoc disclosures, press and analyst conferences and other publications) as well as its own specialist, micro and macro-economic research, examinations and evaluations.

II. Disclaimer

1. This document is directed at eligible counterparties and professional clients. Therefore, it is not suitable for retail clients unless (a) it has been explicitly labelled as appropriate for retail clients or (b) is properly disseminated by an investment firm authorized in the European Economic Area (EEA) or Switzerland to retail clients, who evidently have the necessary knowledge and sufficient experience in order to understand and evaluate the relevant risks of the relevant evaluation and / or recommendations.

It was prepared by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Germany (‚DZ BANK') and has been approved by DZ BANK only for dissemination to the aforementioned recipients in Member States of the EEA and Switzerland.

If this document is expressly marked as 'Financial Analysis' in sub-section 1.1 of the Mandatory Disclosures, its distribution to recipients is subject to the section International Restrictions of Use and these additional rules:

This document may only be brought into the Republic of Singapore by DZ BANK via the DZ BANK Singapore Branch, but not by other persons, and may only be disseminated there to ‚accredited investors' and / or ‚expert investors' 'and used by them.

This document may only be brought into the United States of America (USA) by DZ BANK and via Auerbach Grayson, but not by other persons, and may only be disseminated there to ‚major U.S. institutional investors' and used by them, if it solely comprises equity research. DZ BANK is neither allowed to bring documents on debt instruments into the USA nor to conclude transactions in debt instruments.

If this document is expressly marked as 'Other Research Information' in sub-section 1.1 of the Mandatory Disclosures, its dissemination to recipients is subject to these additional rules:

It is neither allowed to provide Other Research Information to customers in the United States of America (USA) nor to conclude corresponding transactions with them.

The dissemination of Other Research Information in the Republic of Singapore is in any case restricted to DZ BANK AG Singapore Branch.

In all before named countries, this document may only be distributed in accordance with the respective applicable laws and rules, and persons obtaining possession of this document should inform themselves about and observe such laws and rules.

2. This document is being handed over solely for information purposes and may not be reproduced, redistributed to other persons or be otherwise published in whole or in part. All copyrights and user rights to this document, also with regard to electronic and online media, remain with DZ BANK.

Whilst DZ BANK may provide hyperlinks to web sites of companies mentioned in this document, the inclusion of a link does not imply that DZ BANK endorses, recommends or guarantees any data on the linked page or accessible therefrom. DZ BANK accepts no responsibility whatsoever for any such links or data, nor for the consequences of its use.

3. This document is not to be construed as and does not constitute an offer, or an invitation to make an offer, to buy securities, other financial instruments or other investment objects.

Estimates, especially forecasts, fair value and / or price expectations made for the investment objects analyzed in this document may prove incorrect. This may occur especially as a result of unpredictable risk factors.

Such risk factors are in particular, but not exclusively: market volatility, sector volatility, measures undertaken by the issuer or owner, the general state of the economy, the non-realisability of earnings and / or sales targets, the non-availability of complete and / or precise information and / or later occurrence of another event that could lastingly affect the underlying assumptions or other forecasts on which DZ BANK relies.

The estimates made should always be considered and evaluated in connection with all previously published relevant documents and developments relating to the investment object and to the relevant sectors and, in particular, capital and financial markets.

DZ BANK is under no obligation to update this document. Investors must inform themselves about the current development of business as well as of any changes in the business development of the companies.

During the validity period of an investment recommendation, DZ BANK is entitled to publish a further or other analysis based on other, factually-warranted or even missing criteria on the investment object.

4. DZ BANK has obtained the information on which this document is based from sources believed to be essentially reliable, but has not verified all of such information. Consequently, DZ BANK does not make or provide any representations or warranties regarding the preciseness, completeness or accuracy of the information or the opinions contained in this document.

Neither DZ BANK nor its affiliated companies accept any liability for disadvantages or losses incurred as a result of the distribution and / or use of this document and / or which are connected with the use of this document.

5. DZ BANK and its affiliated companies are entitled to maintain investment banking and business relationships with the company or companies that are the subject of the analysis contained in this document. Within the limits of applicable supervisory law, DZ BANK's research analysts also provide information regarding securities-related services and ancillary securities-related services.

Investors should assume that (a) DZ BANK and its affiliated companies are or will be entitled to engage in investment banking operations, security operations or other business transactions from or with the companies that are the subject of the analysis contained in this document, and that (b) analysts involved in the preparation of this document can generally be indirectly involved in the conclusion of such business transactions to the extent permitted by supervisory law.

DZ BANK and its affiliated companies and their employees may have positions in securities of the analyzed companies or investment objects or effect transactions with these securities or investment objects.

6. The information and recommendations of DZ BANK contained in this document do not constitute any individual investment advice and, depending on the specific investment targets, the investment horizon or the individual financial situation, may therefore be unsuitable or only partially suitable for certain investors. In preparing this document DZ BANK has not and does not act in the capacity of an investment advisor to, or asset manager for, any person.
The recommendations and opinions contained in this document constitute the best judgment of DZ BANK's research analysts at the date and time of preparation of this document and are subject to change without notice as a result of future events or developments. This document constitutes an independent appraisal of the relevant issuer or investment objects by DZ BANK; all evaluations, opinions or explanations contained herein are those of the author of this document and do not necessarily correspond with those of the issuer or third parties.
Any decision to effect an investment in securities, other financial instruments, commodities, merchandise or other investment objects should not be made on the basis of this document, but on the basis of independent investment analyses and methods as well as other analyses, including but not limited to information memoranda, sales or other prospectuses. This document can be no replacement for individual investment advice.

7. By using this document, in any form or manner whatsoever, or referring to it in your considerations and / or decisions, you accept the restrictions, specifications and regulations contained in this document as being exclusively and legally binding for you.

Additional Information of Markit Indices Limited

Neither Markit, its affiliates or any third party data provider makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. Neither Markit, its affiliates nor any data provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the Markit data, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom.
Markit has no obligation to update, modify or amend the data or to otherwise notify a recipient thereof in the event that any matter stated herein changes or subsequently becomes inaccurate.
Without limiting the foregoing, Markit, its affiliates, or any third party data provider shall have no liability whatsoever to you, whether in contract (including under an indemnity), in tort (including negligence), under a warranty, under statute or otherwise, in respect of any loss or damage suffered by you as a result of or in connection with any opinions, recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by you or any third party, whether or not based on the content, information or materials contained herein.

DZ HYP LOCATIONS

Hamburg Head Office
Rosenstrasse 2
20095 Hamburg, Germany
PO Box 10 14 46
20009 Hamburg, Germany
+49 40 3334-0
info@dzhyp.de

Münster Head Office
Sentmaringer Weg 1
48151 Münster, Germany
Mailing address:
48136 Münster, Germany
+49 251 4905-0
info@dzhyp.de

Berlin Office
Pariser Platz 3
10117 Berlin, Germany

Hanover Office
Berliner Allee 5
30175 Hanover, Germany

Munich Office
Türkenstrasse 16
80333 Munich, Germany

Dusseldorf Office
Ludwig-Erhard-Allee 20
40227 Dusseldorf, Germany

Kassel Office
Mauerstrasse 11
34117 Kassel, Germany

Nuremberg Office
Am Tullnaupark 4
90402 Nuremberg, Germany

Frankfurt Office
CITY-HAUS I, Platz der Republik 6
60325 Frankfurt/Main, Germany

Leipzig Office
Richard-Wagner-Strasse 9
04109 Leipzig, Germany

Stuttgart Office
Heilbronner Strasse 41
70191 Stuttgart, Germany

dzhyp.de

An overview of DZ HYP's real estate market reports to date is available here.

DZ HYP AG

Rosenstrasse 2
20095 Hamburg
Germany
Phone +49 40 3334-0

Sentmaringer Weg 1
48151 Münster
Germany
Phone +49 251 4905-0

dzhyp.de

As at = March 2025