PRESS RELEASE

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DZ HYP publishes study “The German Real Estate Market 2018/2019”

- » **Continued high demand at the seven top locations**
- » **Increasing shortage of space on the office market**
- » **Level of new construction on the housing market is failing to meet demand**

Commercial real estate markets in Germany continue to benefit from the positive economic conditions. Strong demand, combined with a shortage of space, leads to sustained rent increases in the office and residential segments. Only in the retail sector, where prime rents have been stable at a high level since 2015, are no further increases to be expected until the end of 2019. These are the results of the latest research report published by DZ HYP, covering developments on the commercial real estate markets of Germany’s top locations: Hamburg, Berlin, Dusseldorf, Cologne, Frankfurt, Stuttgart and Munich.

“The seven large German cities are attractive living and working locations, with high population growth. At the same time, the housing market is failing to satisfy demand, which is why we are observing an unchanged situation with sustained rent increases. This gap in demand is also observed in the office markets, where vacancy rates have reached their lowest level in 20 years“, explained Dr Georg Reutter, Co-Chairman of DZ HYP’s Management Board.” With regard to investors, Dr Reutter added: “Due to high demand and short supply, yields have shown a significant decline over the past ten years, yet still remain high compared to bond yields. Thus, commercial real estate remains in focus for investors – and hence a popular asset class."

Number of employees working in offices growing four times as fast as office space

The stable economic conditions in Germany, and the resulting increase in the number of employees have a positive effect on the demand for office space. The seven top locations are particularly popular labour markets, where the number of office jobs has risen by 25 per cent, to 2.4 million employees, over the past ten years. During the same period, available office space only grew by 6 per cent, to approximately 80 million square metres. The average vacancy rate is expected to fall to around 3.5 per cent by 2019. Ten years ago, vacancies were still around 9 per cent. In Berlin, Munich and Stuttgart, the rate has already declined to approximately 2 per cent, whilst Frankfurt's vacancy rate of 8.5 per cent is the highest.

Strong demand and the tight supply situation have caused prime rents in top locations to rise over the past ten years. At around 21 per cent, however, the extent of rent increases is still moderate in comparison with the residential (55 per cent) and retail (40 per cent) segments. Only in Berlin (plus 40 per cent) and Stuttgart (plus 30 per cent), increases have exceeded the average – partly due to low starting levels. On the other hand, Cologne (5 per cent), Frankfurt (10 percent) and Dusseldorf (11 per cent) recorded below average rent increases. The reason for the moderate growth in these cities is the decreasing willingness of companies to enter into long-term rental agreements at high rent levels. For the current and the coming year, prime rents are expected to continue to rise slightly.

Demand gap on the housing market is accelerating

All the top locations examined are registering steady population growth. Since 2007, the number of inhabitants has increased by between 7 per cent (in Dusseldorf) and 15 per cent (in Frankfurt). In contrast, the cities lack sufficient residential construction activity. Over the past ten years, the demand gap has risen to 300,000 residential units, which even the noticeably rising completion figures are unable to close. With a volume of 16,000 and 8,000 respectively, Berlin and Hamburg recorded the highest number of new apartments in 2017 – albeit also due to low starting levels. With four residential units per 1,000 inhabitants, the volume of new construction in both cities is behind Frankfurt and Munich, where six units per 1,000 inhabitants were built. The reasons for the insufficient expansion of residential construction are the lack of building plots and designation of building land, capacity bottlenecks in the construction industry, as well as protracted approval procedures.

On average, prime rents in the housing markets of the seven top locations have increased by 55 per cent since 2007. Berlin and Munich showed the most dynamic development, with rental growth of around 65 per cent each. In Cologne, the increase was noticeably lower at around 30 per cent. Also, there are large differences on the rental markets regarding prevailing dynamics: whilst rents for apartments in Dusseldorf, Frankfurt and Cologne only moderately increased, at around 2 per cent to 3 per cent, Stuttgart recorded an increase of more than 11 per cent in 2017. The different rent increases led to a wide range of average first occupancy rents at the mid-year point in 2018. At slightly less than €13 per square metre, the level in Berlin, Dusseldorf and Cologne is significantly lower than in Munich, where €19 per square metre is being asked. The upward trend in residential rents in all top locations is expected to prevail throughout the forecast period until the end of 2019. However, due to the high level already achieved and expanded new construction offerings, momentum is likely to weaken. Rent increases of around 3.5 per cent are expected for the current year, whilst rent growth should slow to 3 per cent in 2019.

Shifting retail demand for retail space

In comparison to the rest of Germany, the retail sector at the seven top locations benefits in particular from continuous population growth and rising visitor numbers. The growing customer potential helped to mitigate the consequences of the booming online trading sector. At the same time, especially fashion retailers are already responding to the changed conditions, adapting their bricksand-mortar concepts by reducing sales areas. Demand is shifting in favour of system gastronomy providers, supermarkets and drugstores.

Since the end of the 1990s, prime rents in the retail sector have risen sharply in all top locations. Toward the end of 2017, the average rent was slightly below €300 per square metre, almost twice as high as in 1997. Since then, against the backdrop of weaker demand for space and high rent levels, no significant growth has been recorded. Rent momentum at the top locations has varied over recent years. Whilst rents in Berlin and Dusseldorf have increased by around 50 per cent since 2007, the increase in Stuttgart was only 20 per cent. At the 2018 mid-year point, prime rents per square metre showed a difference of around €100: at around €250, Stuttgart and Cologne are the cheapest top locations, whereas Munich, at €345, noticeably exceeds the average. Top rents have remained stable in all seven cities since mid-2017. For the current and the coming year, levels are expected to remain unchanged, given the high levels already achieved.

DZ HYP regularly analyses developments on the real estate markets in its target business areas. The current study report "The German Real Estate Market 2018|2019" is available for download from our website. Alternatively, we can send you a copy upon request. The charts are also available upon request.

About DZ HYP AG
DZ HYP is a leading provider of real estate finance in Germany as well as a centre of competence for public-sector clients within the Cooperative Financial Network. DZ HYP services its clients and business partners with a comprehensive range of products and services from its four business divisions of Commercial Real Estate Investors, Housing Sector, Public-Sector Clients, and Retail Customers/Private Investors. The Bank's nationwide presence comprises two Head Offices (Hamburg and Münster), plus Regional Centres in Germany's economic centres and Regional Offices across Germany. Please visit www.dzhyp.de for more information.

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