GERMANY

I. Residential market in Germany

A. Population

According to a first report of the Federal Statistics Office (Destatis), 83.2 million people were living in Germany at the end of 2020. Owing to lower net immigration, higher mortality and an estimated marginally smaller number of births compared with the previous year, the population did not rise for the first time since 2011.

B. Residential market Germany

Residential prices in Germany were stagnant from the early 2000s until 2009. Prices since 2010 have been among the fastest rising in Europe. According to the Bundesbank price index, the top seven cities have seen prices more than double since 2010. Deutsche Bank predicts similar prices increases through at least 2022, largely driven by delayed new construction. Current commercialised prices for good quality apartments of 60 to 80 m² are highest in Munich at 9,480 €/sqm. Frankfurt and Stuttgart follow at 7,235 €/sqm and 6,985 €/sqm, respectively. Berlin is seventh on the list at 5,929 €/sqm but counts the second largest price growth of 65% (2015 to 2019).

As a result of these expensive buying prices, combined with affordable rents managed by public housing companies and lack of legislation favouring homeownership, Germany is known for having a low home ownership rate. Just 51% of people own their home. This amount is evenly split between those who maintain a mortgage/loan and those who own their home outright. The remaining 49% of people rent their residence, being the second highest rate in Europe behind Switzerland. The German government carried out a tenant survey in 2018/2019. Average gross residential rents in Germany were recorded at 7.9 €/sqm/mo. Hamburg claimed the highest rents at 10.4 €/sqm/mo, followed by Munich (9 €/sqm/mo) and Berlin (8.8 €/sqm/mo).

C. Housing Stock

Germany counts 42.513 million residential units at the end of 2019. Housing stock growth has been just 0.57% per year on average over the last decade, which is very modest. The average size residential unit is 92 sqm. This is a growth of one square meter over the last decade. The average residential unit has 4.4 rooms.

D. New builds

Presently, Germany is experiencing a serious housing imbalance. Development is simply not keeping up with the demand and is the single biggest challenge to the residential market today. Development of some 270,000 units annually is around 100,000 fewer than the government's target. Though, 360,000 residential building permits were issued in 2019. And, YTD 2020 until November show already 332,000 residential permits that were issued this year. Estimated building costs are reported as part of permit applications. These have been growing at more than 3% per year on average and exceed 3,100 €/sqm for permits granted in 2020. This comes to more than €300,000 per unit on average. Given the changing household configurations and increasing proportion of singles, the average living space per capita has been increasing over time from 42.5 sqm/person in 2009 to 47 sqm/person in 2018. Framed differently, residential resource intensity per capita has been increasing.

Key stats: German housing stock is 42.513 million residential buildings; Munich records the highest new commercialised apartment prices of 9,480 €/sqm; 332,000 building permits issued YTD November 2020.

sources: Destatis

II. Office market in Germany

A. Office market – top 5 German markets

In 2020, 2.16 million sqm was newly leased or taken by new owners in Germany's five most important office markets (Berlin, Düsseldorf, Frankfurt, Hamburg and Munich), marking a decline of 36% compared to 2019. The ongoing uncertainty about how the pandemic will develop is being felt in in all five of the large cities, with Berlin retaining its lead from 2019 as the country's most active office market with a take-up of 660,000 m². The second most popular office market was Munich, with a take-up of 558,500 (-26.9%), followed by Frankfurt 330.200 (-40.2 %), Hamburg 318,300 and Düsseldorf 293,500 (-43 %)

Despite the uncertainty in office markets, weighted average rents were on the rise or remained stable in almost all the Top 5 markets. Above all, Berlin (up 8.1%), Munich (up 6.7%) and Frankfurt (up 7.4%) are proof that users are still willing to pay the rents demanded, especially in markets where contemporary, high quality space in central locations is a scarce commodity. In Hamburg, the increase was more moderate at 1.0%. Düsseldorf was the only city where rents were in decline, which is mainly attributable to several large-scale lettings in city fringe locations and submarkets being concluded at lower market rents. Prime rents remain stable, though they were recorded higher for first-rate office space in Berlin and Hamburg compared with the previous year.

Vacancy in the top 5 German markets together slightly increased by 0.5% to 3.9% in 2020. The greatest upturn in the vacancy rate was registered in Berlin (+ 1.1%). However, with a vacancy rate of 2.3%, the capital city still registers the lowest rate of the 5 German metropolises. Hamburg's vacancy rate is also hovering below the three-percent mark (2.7%) despite an increase of 0.3%. In Munich, vacancies rose by 0.6% to 3.3%. The vacancy rate in Frankfurt dropped by 0.4% to 6.4%, which means that of the Top 5 markets Düsseldorf currently has the highest vacancy rate of 6.0%.

B. Investment

Despite the macroeconomic challenges presented by the pandemic, with the services sector taking a particularly hard hit, the German office real estate investment market achieved one of the best results in recent years with €26.7 billion invested in 2020. Although, as expected, the overall result dropped by 31 percent compared with the exceptional record year of 2019, both the 10-year average and the very good results of 2014 through 2016 were partly significantly outperformed.

Office properties continue to be the most important investment target of domestic and international investors who place great trust in the sustainable and stable development of Germany as an office location. Measured by their relative proportion in the overall transaction volume, office properties therefore remained the dominant asset class with 35%, ahead of residential with 25%, retail with 15% and the logistics sector with 10%.

The largest single asset transactions were also attributable to these markets, particularly Frankfurt, where the three largest single asset deals took place. With an investment volume of €5.6 billion, a repeat of the year-earlier level, Frankfurt was therefore the strongest market of the top locations, followed by Berlin with €5.5 billion (-43%) and Hamburg with €3.45 billion (+3 %). Munich came in fourth place with €3.1 billion (-64%), with Düsseldorf close behind at €3.0 billion (-27%). Aside from this, around €5.45 billion was invested outside the top markets in 2020, with the majority of this volume concentrated on the regional centres of Nuremberg, Wiesbaden, Essen and Leipzig.

Despite the crisis, German office real estate topped the list of domestic as well as international investors in 2020. This ongoing strong investor demand is substantiated by the average prime yield in the Top 7 markets that slipped six basis points to 2.85% in 2020, marking a new record level.

Key stats: Highest office prime rent in Germany is 44 €/sqm/month in Frankfurt ; lowest vacancy in Germany in Berlin : 2.3% ; German office investment volume €26.7 billon

sources: CBRE