ACTIVITIES IN Germany

The German market has once again proved to be one of the most resilient. The impact of COVID-19 is still clearly noticeable in the office and hotel markets, but residential, logistics and retail are doing better. In the residential market in particular, which we focus on, there is an immense surplus of demand – both in terms of acquisition and the subsequent sale to investors or owner-occupiers. A key factor is that the health crisis further increased or even fuelled the attractiveness of the residential asset class.

The office market, our second target market, is somewhat more differentiated. The current demand structure is fundamentally different from how it was at the beginning of the pandemic. Some office users will have a substantially higher demand for space; others considerably lower. In essence, the focus is shifting from offices as a place to work, to offices for interaction and communication. Nevertheless, offices in the top seven cities that take this change into account and meet the ESG criteria will be able to attract users.

Our 20,000 m² Eden project in Frankfurt (developed by Immobel Luxembourg) is progressing well, with 74% of the 263 residential units either sold or booked. The structural and façade works have been completed: seven of the ten green lines of the façade have been executed and planted. With one of the highest green residential façades in Europe, Eden Tower sends a strong signal that cities are progressively moving towards a new paradigm. The greening of the façade will create a positive influence on the microclimate and contribute to the quality of life in the building and its surroundings.

In 2022 we will be able to announce a first acquisition; the result of negotiations conducted throughout 2021.

In parallel with these negotiations, prospecting is going well. We have continued to study new investments on the market, which could bear fruit in 2022. With this in mind, we are in the process of expanding our staff.

45,300 m²
German portfolio[1]

545
residential units

7,200 m²
offices

"In 2022 we will be able to announce a first acquisition; the result of negotiations conducted throughout 2021."

Michael Henn
Managing Director,
Immobel Germany

Eden, Frankfurt

1. Confidential projects are not taken into account in the overview.
2. This project is managed by Immobel Luxembourg SA.

PROJECTS OVERVIEW

Name	Surface (m²)	Location	Use	Building period	Immobel share
Eden[2]	20,000	Frankfurt	Residential	Q3 2019/Q3 2022	90%

See more projects details on our corporate website

Eden, Frankfurt
Contruction works

MARKET ANALYSIS: GERMANY

I. Office market in Germany

A. Office market – top 5 german markets

Germany's Top 5 letting markets generated a take-up volume of 2,629,500 sqm in 2021, thus outperforming the 2020 result by 21.2%. On the back of a weaker first half year in 2021, the growth in take-up for 2021 was mostly due to a strong fourth quarter. If the fourth quarter of 2021 is taken in isolation, take-up soared by 51% in the top 5 markets compared with the year-earlier period. Moreover, take-up in the fourth quarter of 2021 exceeded the average of the final quarters over the last decade by 12%.

The most active German office market in 2021 was Berlin with a take-up of 817,000 sqm, reflecting an increase of 22% compared with 2020. Munich took second place with 643,900 sqm (up 15%). By contrast, the highest growth rates were recorded by Hamburg and Frankfurt with increases of 35% to 430,300 sqm and 32% to 436,800 sqm respectively. Düsseldorf recorded slight year-on-year growth of three% to 301,500 sqm.

Although uncertainty remains due to the pandemic, many companies have come to terms with the situation by being more flexible in handling their space requirements. A decisive factor for take-up in 2021 consisted of 42 large-scale deals, each of more than 10,000 sqm, which overall contributed one quarter of annual take-up. The large proportion of deals concluded in developments with a share of 36% in overall take-up was particularly striking. This underscores strong occupier demand for new and modern office space with custom-build workspace interior, that complies with hybrid workplace design, teleworking, hygiene regulations and ESG criteria.

Vacancy in the top 5 office markets climbed 17% to 3.4 million sqm compared with year-earlier period. The average vacancy rate stood at 4.4% at year-end and was therefore 0.6 percentage points above the year-earlier figure. While this represents a significant increase in the vacancy rate, it remains nevertheless at a low level. In highly desirable locations, like central business districts, vacancy rates tend to be even lower. The volume of space available for subletting increased by 10% compared to 2020 since a few companies needed less space as a result of covid-induced teleworking.

In 2021, demand continued to focus on prime office space in the top CBD locations. As a result, prime rents have risen in four out the five office markets compared with the previous year. The sharpest rise of 6% to €41.00/sqm/month was registered in Berlin. In Munich, the prime rent climbed by 5% to €41.50 and in Frankfurt am Main by 3% to €45.50. Compared with the year-end 2020, prime rents remained stable in Hamburg and Düsseldorf at €32.50 and €28.50 respectively.

Key stats:
Highest office prime rent in Germany is 45.5 €/sqm/month in Frankfurt
Vacancy in Germany increased to 4.4%

sources: CBRE

II. Property investment in Germany

The German real estate investment market generated a transaction volume of more than €111 billion in 2021, reflecting growth of 40% in a year-on-year comparison. Germany ranks 2nd in the world's based on property investment volume in 2021, with only the USA doing better.

The largest transaction in Germany was Vonovia SE's takeover of Deutsche Wohnen SE and resulted in Europe's largest private housing company. Back in the third quarter of 2021, Swedish Heimstaden acquired the housing portfolio of property company Akeliusin. But even excluding these two takeovers, the 2021 investment volume settled at 5% above the previous record result from the 2019 pre-pandemic year when just under €84 billion was invested in German commercial and residential property.

Core and core plus investments dominated the investment year 2021 with a share of around 72%, up from 61% in 2020.

Furthermore, some 7 billion euros were channeled into sustainability-certified properties, with ESG-compliance playing an increasingly important role in the eyes of property investors. Another notable trend is the increasing number of forward investment deals (€18.5 billion) and development acquisitions (€5 billion), where investors are seeking access to the German property market.

At around €49 billion, residential property was the dominating asset class in 2021 (up 145% in volume as compared to 2020). Of the commercial properties, office real estate remained the most important asset class, outperforming the year-earlier figure by 11% with a transaction volume of more than €30 billion. Industry and logistics replaced the retail asset class as the third largest investment segment. At more than €10 billion, the transaction volume not only set a new record but also significantly exceeded the previous year’s result by 34%.

With pressure from strong demand, net initial yields compress further across almost all asset classes. At year-end 2021, the average prime yield for office properties in top markets came in at only 2.65%, 0.2 percentage points below the year-earlier figure. Yields have declined in the retail segment, after rising earlier at the start of the pandemic. While distinct yield compression of 1.2% percentage points was recorded for highly desirable supermarkets, yields for high street properties and shopping centers recently edged down as well. The drop in yields of 0.4% percentage points to currently 3% for booming logistics property, ultimately due to COVID-19, was also considerable.

Key stats:
German overall investment volume amounted to €111 billon in 2021
The average prime yield for office properties in top markets is at 2.65%

sources: CBRE

III. 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 in September 2021. Compared to the same period in 2020, the German population grew by 31,886 inhabitants or 0.04%. In 2021, the stagnating population was due to the increased number of deaths, which clearly exceeded the number of births. The gap between births and deaths, however, was filled by higher net immigration. In 2020, net immigration had decreased. At the end of 2020, roughly 618,200 households in Germany received housing allowance, or about 1.5% of all main residence households. The Federal Statistical Office (Destatis) also reports that the number of recipient households increased by 22.6%, or about 113,800, compared with 2019, as a result of the housing allowance reform which took effect at the beginning of 2020. As a result, more households have been entitled to housing allowance.

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.
Current commercialised prices for apartments are highest in Munich at 9,500 €/sqm (+8.8% per annum since 2016). Frankfurt and Hamburg follow at 7,000 €/sqm (+10.2% per annum since 2016) and 6,250 €/sqm (+8.0% per annum since 2016), respectively. Berlin is fourth on the list at 5,500 €/sqm but counts the strongest price growth of the top-4 (+10.8% per annum since 2016).

Just 50.4% of people own their home in Germany. The remaining 49.6% of people rent their residence, being the second highest rate in Europe behind Switzerland.

D. Housing stock

Germany counts 42.8 million residential units at the end of 2020. Housing stock growth has been just 0.63% per year on average since 2014, which is rather modest but exceeds population growth. The average size residential unit is 92 sqm and counts 4.4 rooms.

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.

From January to November 2021, new building permits amount to 341,036 dwellings and are up 2.8% on the same period a year earlier. Estimated building costs are reported as part of permit applications. In November 2021, the construction price index for conventionally constructed new residential buildings in Germany was up 14.4% compared with November 2020.

Key stats:
German housing stock is 42.8 million residential buildings;
Munich records the highest new commercialised apartment prices of 9,500 €/sqm;
341,036 building permits issued YTD November 2021

sources: Destatis

As per 31 December, 2021