

Summary

Spring Real Estate Industry Report 2025

**by the Immobilienweisen
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Dear Reader,



Negative reports had been circulating for some time, and at the end of January the German government made it official: Germany's economy has shrunk more than expected, and only a minimal growth of 0.3 per cent is expected in 2025. The construction industry was hit hardest by the decline in gross value added. ZIA and the real estate industry could understandably join the chorus of complainers.

But they refuse to do so. Because: the real estate industry, with a share of almost 20 percent of gross value added, can act as a major economic engine to push the entire locomotive forward. If it is allowed to.

The Spring Report shows that this powerful locomotive is making excellent progress in some areas. It also shows that it is limping in others – and not picking up nearly as much speed as it could: it is still over-regulated, because it is the sector in Europe that is held back most by taxes, levies and restrictions.

Something must be done! It is up to the states and municipalities, as well as ,Brussels' and the future federal government. One solution would be to waive, at least temporarily, the land transfer tax for all classes of property, as well as municipal levies.

The situation in the property sector cries out for a political reboot. It needs to get out of routine mode. Right now. In any case, our industry is ready.

Where exactly are we stuck? The Spring Report provides answers. Many thanks to the ,real estate experts' for their in-depth analyses, which break down the status quo for each asset class and at the same time show policy-makers where things could go. And should. Special thanks also go to all our supporters.

The real estate industry can achieve a lot in this country. For tenants, a vibrant working environment in the office, a boost in the care property sector, modern schools, a vibrant retail sector, attractive hotels and dynamic city centres. Paralysis and stagnation are things of the past. So: let's go!

A blue ink handwritten signature, likely of Iris Schöberl, written in a cursive style.

Iris Schöberl
President of ZIA German Property Federation

Spring Real Estate Industry Report 2025 – Summary

1. Macroeconomic development

Real gross domestic product (GDP) in Germany fell by 0.2% in 2024 compared to the previous year, despite previous optimistic forecasts of +0.6%. The anticipated recovery following the coronavirus pandemic and energy crisis failed to materialise. High energy prices, lower capacity utilisation and labour productivity are putting pressure on competitiveness and curbing the willingness to invest in times of above-average uncertainty. Forecasts for 2025 suggest a growth rate of 0.4%, which illustrates the structural weakness of growth.

The **labour market** remained robust in spite of the weak economy. Despite the slight year-on-year rise in employment statistics of 0.2% in 2024, the third quarter already featured a slight decline (-0.1% year-on-year). Increases in employment in the services sector (+0.4%) – in the public sector (+1.5%) especially – were unable to compensate for the significant drop in manufacturing (-0.6%) and construction (-1.1%). In 2024, the increase in employees subject to social security contributions was exclusively attributable to the increase in part-time employment. Their share rose to 30.6%, while full-time employment fell slightly. The historical growth in employment is likely to grind to a halt in 2025, partly due to gradual retirements within the baby boomer generation.

Preliminary estimates by the Federal Statistical Office indicate that the seasonally adjusted **unemployment rate** – i.e. the proportion of all unemployed persons in the civilian labour force as defined by the International Labour Organization (ILO) – rose from 2.8% (2023) to 3.2% (2024) on an annual average. According to the Federal Employment Agency, just under 2.79 million people were registered as unemployed under SGB III in December 2024. Moreover, underemployment rose by 130,000 to 3.59 million people compared to 2023. The increase in short-time work from 241,000 (2023) to 320,000 people (2024) was yet another sign of a deteriorating labour market.

At 2.2% year-on-year, **inflation** in 2024 was significantly lower than in 2023 (6.0%) and drew closer to the ECB's medium-term target of 2%. The increase in the consumer price index was still at 8.7% in early 2023, but inflation fell to 2.9% in January 2024. Inflation continued its downward trajectory as the year progressed, dropping to 1.6% in September before rising again to 2.6% by December 2024. In 2024, company pricing policies were inhibited by consumer saving and restrained spending. Inflation was particularly evident in the services sector. The sharp wage increases were passed on to prices. On the other hand, lower energy prices curbed this effect. Prices for energy sources were 7.6% lower in September 2024 compared to the previous year. This decline weakened as the year progressed. Compared to 2020, however, prices for household energy were 51.9% higher. Forecasts point to an average inflation rate of 2.1% in 2025.

Financing conditions improved slightly over 2024. This was attributable to easing in ECB monetary policy and lower inflation. The ECB lowered the key interest rate, albeit later than the market had anticipated. It had been at 4.5% since September 2023 but was cut to 4.25% in June and then gradually to 3.15% in December 2024. Given the declining inflation and inflation expectations for 2025, the ECB is likely to introduce additional cuts to the key interest rate in 2025 and hence stimulate further positive growth for the German economy.

The trends for **lending** to companies and private households for residential construction in 2023 experienced a turnaround: at 2.9%, year-on-year growth was significantly lower than in 2022 (6.6%). Average growth in the first three quarters of 2024 was just 1.2% compared to the same period in the previous year. But there are tentative grounds for hope quarter-on-quarter: the increase was only 0.1% in the first quarter, rising slightly to 0.3% in the second and 0.4% in the third. The nominal volume of outstanding residential real estate loans totalled €1,816 billion in the third quarter.

Compared to other sectors of the economy, the **construction sector** was hit hardest by the decline in gross value added and experienced a drop of around 5% in the third quarter compared to the same period in the previous year. In particular, production in building construction continued its downward trajectory to a similar level as at the start of 2018. Residential construction recorded fewer incoming orders once again. In the first half of 2024, they were 5.69% lower on average compared to the first half of 2023. After the concerning slump in orders for residential construction, which was above 15% in 2022 and close to 20% in the following year, the volume of incoming orders in 2024 returned to the same level as ten years ago. The slight stabilisation in incoming orders during the second half of 2024 is likely to continue due to the easing of monetary policy and the slower rise in construction costs (-1% in 2025). Residential construction investment is likely to recover from mid-2025.

The **economic policy** of the next federal government should foster a more favourable environment for improved competitiveness, investment and innovation to solve Germany's structural crisis. Investment in infrastructure is needed in addition to corporation tax reform. Measures to boost investments in the construction sector, including tax measures (reduction in real estate transfer tax rates, revenue neutrality in real estate tax reform and a deduction of costs for energy-efficient refurbishment), would provide additional incentives. The same applies to a discontinuation of the rent control and rewards for the refurbishment of properties with the poorest energy efficiency under the EU Taxonomy.

2. Investment market for commercial real estate

At around €24.3 billion, the **transaction volume** of commercial real estate at the end of 2024 was slightly higher than the year before (2023: €23 billion). That led to initial signs of gradual stabilisation on the investment market. Sales of industrial and logistics properties (€6.9 billion, 28.4%) exceeded sales of retail properties (€6.1 billion, 24.9%) for the second time since 2023.

This was followed by office investments with €4.9 billion (20.3%). Absolute and prorated investments in hotels properties increased slightly (2023: €1.4 billion, 6.0%; 2024: €1.5 billion, 6.3%). The same applies to healthcare and social properties (2023: €1.0 billion, 4.1%; 2024: €1.3 billion, 5.4%).

3. Office properties

The market for **office properties** has experienced sweeping adjustments and transformations in recent years and remains stable, although a noticeable upturn failed to materialise in 2024. The shortage of skilled workers, demographic change, the impact of remote working and the complex implementation of ESG measures require strategic adjustments and investments. Targeted subsidy programmes are required to meet the need for the refurbishment of office buildings along energy efficiency lines (€160 to 200 billion in the A-D markets). This will be necessary to make refurbishment or conversion commercially viable, especially in the economically weaker markets.

Yields on office properties experienced another year-on-year rise in 2024, albeit at a slower pace. The highest increases in prime yields were recorded in the A-tier cities. They reach 4.5% on average (+40 basis points compared to 2023). But they also increased by 30 basis points to 5.1% or 5.5% respectively in the B- and C-tier cities as well. D-tier cities recorded 6.3%. At +20 basis points compared to 2023, this represents the smallest increase among all city categories. Munich still ranks as the most expensive office location (4.3%), followed by Berlin (4.4%) and Hamburg, Frankfurt, Cologne, Düsseldorf and Stuttgart (4.5% to 4.6%). Further lateral movements are expected in 2025 before a decline in prime yields might occur due to improved financing conditions.

Rents (prime rents) continued to rise in 2024. This was attributable to construction costs, particularly in areas with a high proportion of new construction and for properties of above-average quality. The weighted average of prime rents in A-tier cities rose from €40.30 to €42.50/m² RAC (rental area for commercial use). Munich (€54.00/m²) further increased its lead over Frankfurt (€47.50/m²), in second place, as the most expensive location. These cities are followed by Berlin with €45.00/m² and Düsseldorf (€42.00/m²). Increases were also noted in the B-tier cities, on average by 50 cents to the current value of €18.20/m². Bonn remains the most expensive location (€25.20/m²), followed by Mannheim and Hannover (both at €21.40/m²) as well as Dresden and Leipzig (both at €19.00/m²). C- and D-tier cities recorded more moderate increases. Here, prime rents were listed at €15.30/m² and €12.00/m² (2023: €14.90 or €11.60/m²) per month, respectively. Decentralised office spaces in substandard locations and outdated properties are increasingly under pressure.

The floor-space turnover in the 127 largest office markets decreased by 4% compared to 2023, reaching 4.25 million m² RAC. The seven A-tier cities of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart returned to stability after huge turnover losses of almost 30% in 2023 compared to 2022 and even recorded a slight increase of +7.4%. Nevertheless, at just under 2.39 million m² the level of turnover remains below average. The

downward trend continued across the other city categories: turnover fell to below 1.05 million m² in the B-tier cities. C- (-30%) and D-tier cities (-26%) experienced the sharpest decline in floor-space turnover.

New construction in the 127 office markets remained at an above-average high level in 2024, with approximately 2.5 million m² RAC, consistent with the past five years. The seven A-tier cities once again accounted for over half of the new build space, totalling nearly 1.3 million m². Berlin (500,000 m²), Hamburg (215,000 m²) and Munich (180,000 m²) saw the largest additions of new-build space to the market. By contrast, the volume of new construction in the 14 B-tier cities fell by a good 14% to 480,000 m², albeit with heterogeneous development across locations: Dortmund (85,000 m²) and Dresden (49,000 m²) accounted for the lion's share, while cities such as Bonn, Duisburg and Nuremberg achieved relatively low additions of new-build space, which in some cases was less than 20,000 m². C- and D-tier cities experienced continued growth of +8% and +10% respectively. A decline in the number of completions is expected for the current year and subsequent years due to the changed market environment.

At 5.6%, the **vacancy rate** in 2024 is approximately 80 basis points higher than the figure for the previous year. The A-tier cities were confronted with rising vacancy rates (2024: 7.1%, 2023: 5.6%) – across a wide range: they were highest in Frankfurt am Main (11%) and Düsseldorf (10%), followed by Munich and Berlin (both 7%). By contrast, Hamburg, Cologne and, to a certain extent, Stuttgart remain within the usual fluctuation reserve of 3% to 5%. Vacancy rates are expected to continue their upward trajectory in all A-tier cities. An increase in vacancy rates in the B-tier cities (vacancy rate in 2024: 5.0%; 2023: 4.6%) is largely reported, although Bonn, Nuremberg and Leipzig experienced declines.

4. Logistics properties

Selling prices on the market for **logistics properties** bottomed out faster than for most other types of use. Nevertheless, the poor macroeconomic outlook is leading to continued restraint. This was reflected in a decline in demand for space in 2024. However, demand remained vigorous in the catchment area of the major urban centres. With a vacancy rate of less than 2% – equivalent to a natural fluctuation reserve – the situation there can be described as full occupancy. The exhausted potential space in many locations will place a greater focus on the revitalisation of old properties and brown-field developments. Demand forecasts at federal, state and municipal level are therefore necessary and must be closely coordinated with the regional planning programmes.

Yields for logistics properties experienced a less pronounced year-on-year rise in 2024 compared to 2023. Net initial (prime) yields are lowest in Berlin (4.4%) and highest in Düsseldorf (4.7%). They were between 4.5 and 4.6% in all other A-tier cities; they were 20 to 50 basis points below this level in 2023. The yields reached 5.3% (2023: 5.0%) and 6.0% (2023: 5.7%) in the B- and C-tier cities, respectively.

Rents continued to rise in all location categories in 2024, partly due to increasing building requirements (energy and aesthetics). Prime rents in the

A-tier cities reached €9.20/m², albeit with a gradual decline in the rate of increase (2023: €8.90/m²). Prime rents in the B-tier cities are at €6.60/m² in 2024 (2023: €6.26/m²), while the asking price for locations in the catchment area of C- and D-tier cities is €6.10/m² or €5.50/m², respectively (2023: €5.88/m² or €5.16/m²).

In the **new construction** of logistics space, rising construction costs and more complex financing conditions, accompanied by a recent drop in demand, continue to cause difficulties. The level of 2023 (4.83 million m²) was largely maintained at 4.75 million m² of new-build space. The total volume of completions anticipated for 2025 is 5.3 million m².

5. Corporate real estate

Corporate real estate includes business properties that are used as operating resources in production. Their market value is around €0.8 trillion with just under half being investable, although only a small proportion is placed on the investment market. However, this space is characterised by highly versatile potential and a wide range of possible third-party uses. Corporate real estate is also facing challenges associated with its dependence on production development and structural transformation within the industrial sector, particularly concerning the migration of industrial firms and the shortage of skilled labour. Increasingly, the housing shortage is being addressed by construction staff accommodation, although this necessitates improvements to the legal frameworks.

The negative trend on the **investment market** persisted in the first six months of 2024, but waned somewhat compared to the first half of the previous year. Half-year investment volumes fell by around 15% to €734 million (2023: -29%, €950 million). With a transaction volume of €369 million, production properties registered the highest demand. Business parks followed in second place, accounting for €203 million. Trading in warehouse properties (€162 million) was stronger in the first half of 2024 compared to the same period in the previous year (€114 million). Initial figures released for the second half of 2024 do not indicate any significant uptick; the volume is likely to be on a par with the first half of the year. One positive aspect that deserves particular mention is the comparatively high price stability.

The rise in **yields** (gross initial yields, prime) is now levelling off. After some quite significant jumps in 2023 compared to 2022, they reached 5.4% for warehouse properties in the first half of 2024 (2023: 5.3%), 6.3% for business parks (2023: 6.2%) and 7.1% for production properties (2023: 6.8%).

Rents stagnated at the previous year's level in the first half of 2024, following increases in previous reporting periods. Only flex spaces – which permit flexible, combined uses – recorded a slight increase of €0.10/m² to €17.90/m². Prime rent for production space remained at €10.80/m². Despite limited supply, hardly any additional price increases should be expected in the lower segment of the rental price range. In contrast, demand for modern, high-quality properties remains high.

6. Hotel properties

The **hotel properties market** continues to stabilise. Major events such as the European Football Championship were contributing factors. However, companies are still grappling with higher operating costs, salaries and energy prices. Weak economic forecasts are also likely to affect business travel going forward. The trend towards consolidations in the hotel industry also continued in 2024: a rising number of hotel beds is offset by a reduced number of establishments. Hotels and bed-and-breakfast hotels now have an average of 92 rooms per establishment – a 42% increase over the last 15 years.

The **number of overnight stays** continued its recovery in 2024, falling just short of the 500-million mark at approximately 497 million (2023: 485 million), thus reaching the pre-corona level of 2019. Hotels and bed-and-breakfast hotels accounted for 54% of overnight stays.

The **investment market** showed signs of a slow recovery. Transaction volume increased, particularly in the second half of 2024, reaching €1.5 billion for the year as a whole, around 7% higher than in 2023. International investors have recently been most active, although private equity investors and family offices have shown burgeoning interest in hotel investments as well. The focus remained on core markets with stable demand, including the established top locations of Berlin, Munich, Frankfurt am Main and Hamburg.

The **outlook** for the hotel properties market is shaped by growing demand for digital convenience, environmental friendliness and social responsibility. However, changes in booking habits and increasing investment pressure due to modernisation in the technological and energy infrastructure are reducing profitability for owners and operators. Trends such as „bleisure“ – a combination of business and leisure – and „workation“ – a combination of work and vacation travel – are providing some additional stimulus. The market is responding with a growing provision of serviced apartments, which with 51,000 units, coworking spaces and communal areas in hotels are becoming established as a crisis-resistant cash cow.

7. Retail properties

The **retail** sector generated revenues of €657.5 billion in 2024. Expressed in nominal terms, this corresponds to year-on-year growth of 1.3%, but in real terms, it equates to stagnation. The online share of total revenue stood at 13.3%, down from 14.5% in 2021. Forecasts predict that total revenue will rise to €700.3 billion by 2028, with the online share likely to increase to 15.7%.

Subdued **consumer sentiment** remains one of the biggest challenges. The trend towards increased savings in response to inflation rates from 2022 to 2024, which led to significant real and perceived rises in prices for fast-moving consumer goods (FMCG), among other things. Supply bottlenecks, a shortage of skilled workers, store network optimisations and retailer insolvencies have compounded the situation and exerted a significant impact on retail properties.

Of the approx. 125 million m² of **retail space** in Germany, the FMCG sector accounts for around 30%, which is characterised by stationary growth and

serves as a driver of footfall. The non-food sectors are likely to see a reduction in sales space of around 10 million m² over the next ten years. This will particularly be noticeable in the textile and shoe segments, department stores and medium-sized specialist retailers. Demand for large spaces is lower, and upper and lower floors are becoming less important. Substitution with equivalent retail formats is becoming increasingly difficult and vacancies are rising. Restaurants, cafés and leisure facilities are establishing themselves more and more as substitutes, and the stationary market for eyewear and hearing aids is growing as well due to demographic factors. However, repurposing often requires conversion, as it will need considerable investment and improved framework conditions (including simplifications under planning law such as shorter conversion and approval times, a reduced regulatory density or the preservation of grandfathering in the event of conversion).

Transaction volumes on the **investment market** for retail properties increased slightly by 8% to €5.4 billion, remaining at a low level compared to previous years. Investors were mainly interested in high-street retail properties (€1.7 billion) and department stores (€1.6 billion). Demand for shopping centres fell slightly (€0.5 billion) and grocery retail properties recorded the sharpest fall in demand (€0.7 billion, -68%). Nonetheless, this restraint is probably due to the expectation of a rise in selling prices going forward and the lack of owner-occupier purchases.

Depending on the properties category, **yields** (net initial yields, prime) range from 4.3% for high-street retail properties, which are considered safe, to 5.8% for shopping centres, some of which require repositioning. Supermarkets and retail parks ranked in the middle with 4.8% and 5.1%, respectively. Yields barely moved in a year-on-year comparison.

Rents for retail space (average rents, prime locations) have fallen across all city categories. They are currently €114/m² per month in the A-tier cities. The average asking price in B-tier cities is €66/m² and €45/m² and €27/m² in the B- and C-tier cities, respectively. Rents in the retail space segment, for example, start at €4 to 5/m² for furniture and DIY stores and non-food discount stores, and reach a maximum of €16/m² for retailers of high-quality textiles. The rental price range for grocery retail properties is between €9 and €18/m². At €10 to €18/m², drugstores pay slightly higher prices than those in the food sector with supermarkets, discounters and hypermarkets (€9 to €17/m²).

8. Healthcare and social properties

Demand for **healthcare and social properties** will continue its upward trajectory due to demographic change, although Germany's health care system has been facing enormous challenges for many years. These include the sharp rise in the number of people in need of care, coupled with a shortage of staff, the increasing duration of care and steadily rising costs (energy, food, staff or property financing). The latter cannot be fully refinanced or only after a certain period through negotiation with payers. Over 1,000 insolvencies and closures since the beginning of 2023 are also symptomatic of the increasingly difficult situation that operators are facing. The reduction in care will be offset by an additional need for 322,000 inpatient places by 2040.

New construction has been stagnating for years. In addition, a large proportion of existing buildings in the care sector are more than 25 years old, with half of them being structurally outdated and energy inefficient. There is an estimated investment requirement of over €40 billion for energy efficiency improvements. However, operators and social welfare providers lack incentives to adopt energy-efficient practices and make suitable investments. A necessary measure would be to standardise the useful life of care homes to 33 years across all federal states and to harmonize cost benchmarks so that they adequately account for higher energy efficiency standards. Social welfare providers should also recognise energy-efficient refurbishments as operational necessities and provide binding commitments for refinancing. The state could also launch subsidy programmes to support the energy-efficient refurbishment and age-appropriate, barrier-free conversion of existing buildings.

There was a lack of traditional large-volume transactions on the **investment market** on a par with previous years. The transaction volume in the health-care and social properties segment rose to around €1.3 billion in 2024 (2023: around €1 billion) but remained at a low level compared to the peak in 2020 (€3.7 billion). In 2024, 70% (€912 million) was attributable to care homes and 30% (€395 million) to medical care facilities. There are signs of a slight market recovery in 2025, with product shortages as the biggest obstacle.

Yields (prime yields) for care homes decreased steadily between 2012 and 2021, dropping from 7.4% to 3.9%. After the trend reversal in 2022, they rose to 5.1% in 2023 and remained at this level in 2024. Yields experienced a similar development in the area of serviced living for seniors, rising from 3.25-3.5% (2022) to 4.5% (2023) and maintaining this level in 2024. The average prime yield for medical care facilities was 4.75% (outpatient) and 5.75% (inpatient), showing no change compared to 2023. Yields are expected to remain stable in 2025. Yield compression may occur in the second half of the year due to investment pressure from institutional investors.

9. Residential real estate

After the change in interest rate policy in 2022, the market for residential real estate has suffered from a massive slump in **new construction activity** due to the sharp rise in financing and construction costs. In total, only around 210,000 newly approved flats are expected in 2024 (-45% compared to 2021). The number of completed flats is expected to fall to 260,000 in 2024 and 230,000 in 2025 (2023: 294,400). This trend further exacerbates the housing shortage in many cities, as current construction activity will be insufficient to meet the estimated annual housing requirement of 372,600 flats for the period 2021 to 2025. This applies even more to the A-tier cities, where there will be significant deficits in Cologne (37% demand coverage), Stuttgart (43%) and Berlin (52%).

Measures to counteract further tension on the housing market and **stabilise residential construction** include an acceleration of planning and approval procedures through digitalisation, bureaucratic streamlining and more staff in building authorities, greater allocation of building land and changes to the framework conditions to reduce production costs (e.g. increased promotion

of standardised construction procedures, fewer restrictive building regulations and specifications, a reduction in real estate transfer tax and VAT for residential construction). In addition, it will be necessary to create framework conditions with long-term predictability and rethink current rent regulations (no additional reduction in rent caps, no permanent establishment of the rent control, and a qualitative improvement in rent indexes).

Higher interest rates have led to a significant increase in financing costs, not only impairing the completion of construction projects but also reducing the demand for owner-occupied housing – which then precipitates additional demand for rented flats. **Rents** have therefore been rising at a much faster rate than in the low-interest phase of the 2010s. The average basic rent (rent excluding additional expenses) in Germany was 2.1% higher in December 2024 than in the same month of the previous year. Asking rents increased by 4.7%. Among the A-tier cities, asking rents rose most in Berlin (+8.5%, €15.74/m² per month), which is probably attributable to the vigorous demand and the special provisions regulating rent. Berlin is followed by Frankfurt am Main (+8.0%, €16.25/m²), Düsseldorf (+7.2%, €13.05/m²), Hamburg (+5.4%, €14.47/m²), Cologne (+4.5%, €14.13/m²) and Munich (+4.3%, €21.70/m²). The lowest increase in asking rents was noted in Stuttgart (+3.8%, €15.23/m²).

In 2023, the **selling prices** for condominiums and detached/semi-detached homes fell for the first time in several decades. However, this trend was relatively moderate due to the high demand and the absence of a price bubble. It initially continued in 2024 but reversed again in the second half of the year. In a quarter-on-quarter comparison, the figures for the fourth quarter of 2024 indicate a stabilisation of prices (condominiums in Germany: -0.4%, detached/semi-detached homes in Germany: +0.6%, condominiums in A-tier cities: +0.7%, detached/semi-detached homes in A-tier cities: -2.4%). Development in the A-tier cities will depend on local demand for housing and the features of the particular building structure. Compared with the same quarter of the previous year, prices for condominiums rose in the fourth quarter of 2024 in Frankfurt am Main (+0.1%, €6,506/m²), Düsseldorf (+0.4%, €4,756/m²), Hamburg (+0.6%, €6,226/m²) and Berlin (+0.9%, €5,701/m²), while they fell in Stuttgart (-2.1%, €4,681/m²), Cologne (-0.8%, €5,021/m²) and Munich (-0.6%, €8,906/m²). Regarding land prices – a key component in the overall development costs of residential real estate – the insufficient availability of building land, which has persisted for years, led to increases of 61% (total building land) and 104% (land that is ready for construction) between 2005 and 2022. 2023 saw moderate declines, although they are attributable to a drop in demand.

On the **investment market**, the turnaround in interest rates is reflected in the slump in transaction activity. Based on expert committee data, 18% fewer residential real estate transactions took place in 2023 compared to the previous year (2022: -17%). The number of building plots sold for residential construction fell from 67,000 to 46,000, which is equivalent to a decline of around 32%. It is also a reduction of more than half compared to the 2021 boom year (-53%). Moreover, the decline was particularly noticeable in the number of first-time condominiums (-20%) and multi-family buildings

(-25%) sold. However, transactions are expected to pick up again in 2025, especially if interest rates continue to fall.

10. The future of inner city development

Many **city centres** are suffering from a continued deterioration in their former vibrancy. Going forward, this will require concepts for revitalisation, structural transformation and a repurposing of the spaces. Traditionally, they were social centres, but experienced changes in the post-war era with the separation of functions. The displacement of housing in favour of the retail sector led to monofunctional, consumer-oriented city centres. Gentrification and the loss of historic buildings intensified this change. Although the heritage protection authorities attempted to counter this trend by preserving architectural diversity, the loss of function as an identity-forming, lively and emotional social gathering place continued.

The question of whether city centres can be revitalised will depend on the **quality of public spaces** and mobility. City centres gain appeal if traffic space is converted into urban space. This concept has already been successfully implemented in Barcelona, for example, and is currently being copied in Germany and around the world. Open spaces in the city centre – long regarded as less urban and non-commercial – are being given a new function in this context as well. Not only do green, well-designed and carefully maintained public spaces contribute to an improved experience and the quality of the location, they also make an important contribution to the climate resilience of city centres.

The **future of the city centre** hinges on specific concepts that are tailored to the location and take into account its particular framework conditions. These concepts are derived from their attributes and are created and implemented with the involvement of all stakeholders. Standardised master plans are no longer sufficient. Instead, there is a need for mutually binding cooperation between the authorities, politicians and the business community to revitalise the city centre. Building blocks in this transformation process include hardware (buildings and infrastructure that need to be modernised), software (forward-looking usage concepts and temporary uses) and organisational measures to promote the city centre such as business improvement districts (BIDs). These measures – accompanied by rapid decision-making processes – must be coordinated and connected to achieve the envisaged momentum.

Other **key elements**: simplified building regulations with standardised national conversion regulations, promotion of local value creation, forward-looking vacancy management, curated offers to bolster retail trade, promotion of attractiveness and climate resilience and prioritisation of residential use including the adaptation of noise barriers and sound-insulating infrastructure. An equally imperative factor is to bring private and public stakeholders to the table, to exploit urban development instruments (within a participatory manner framework) and to learn from best practices, as well as to view conversion of the city centre as a continuous task with permanent funding programmes.

The authors of the Spring Real Estate Industry Report 2025



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About the publisher

The German Property Federation (ZIA) is the leading umbrella association for the property sector. With its registered office in Berlin and a European office in Brussels, it speaks through its more than 400 members, including more than 30 associations, on behalf of approximately 37,000 industry companies right across the value chain. ZIA provides comprehensive, unified representation for the interests of the real estate sector in all its diversity at both national and European level, including as a member of the Federation of German Industries (BDI) and the German Economic Institute (IW). The President of the association is Iris Schöberl.

With about 810,000 companies and approximately 3.5 million employees, the real estate sector is one of the largest and most dynamic in Germany. It generated approximately 730 billion euros in 2023, approximately 20% of Germany's gross value added and therefore more than the automotive sector, for example. The sector is aware of its role in climate protection and therefore reduced its CO₂ emissions from 210 to 102 million tons per annum between 1990 and 2023.

www.zia-europe.eu

The complete version of the Spring Report (in German) can be found at:
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