Press Release

Spring Report 2022: Trade and hotel industry still at risk

- **Macroeconomic development: Construction investments rise again - as do prices**
- **Retail and inner city development: support still does not protect against insolvencies and closures**
- **Hotel property: situation continues to cause concern**
- **Residential property: demand for larger flats is growing**
- **Office property: Discussions about home-office-related space reductions flattened out**
- **Logistics property: Higher demand causes rents to rise**
- **Light industrial property: New record in investment volume**
- **Care property: Rising demand for nursing care needs a differentiated provider structure**

Berlin, 15.02.2022 - The retail sector and the real estate companies behind it are facing a future of great uncertainty. For many businesses, which were and are affected by the lockdown last year and currently by severe access restrictions, the current situation is extremely difficult. This is the conclusion of the Spring Report by the Council of Real Estate Experts on behalf of the ZIA, which was handed over today to the Parliamentary State Secretary in the Federal Ministry of Building, Sören Bartol.

"Insolvencies, branch closures and redundancies are still on the agenda - the effects on city centres are still dramatic and tear gaps in the cityscape," says ZIA President Dr Andreas Mattner. Therefore, his demand to tomorrow's Minister Presidents' Conference is: "There must be an end to unlawful special sacrifices for retailers. 2G must be abolished nationwide and unbureaucratic compensation for the immense control costs incurred - such as a lump sum per entrance and month - is needed, independent of other economic aid".

The president of the leading association of the real estate industry links the 400,000 flats from the coalition agreement to the chancellor personally, saying they are a "life insurance policy" against regulation: "Any further regulation would gnaw away at Olaf Scholz's 400,000 figure", so, Mattner demands: "no manipulation of rent indexes, hands off the tenancy law, stop regulation immediately and turbo-charge construction".

The **complete Spring Report 2022 (in German) can** be found under this LINK.
You can find the **English summary of the Spring Report 2022** under this LINK.

Below are the most important statements of the report at a glance:

Macroeconomic development: Construction investments rise again - as do prices
In 2021, the German economy grew by 2.7% in real gross domestic product (GDP), but the pre-crisis level of GDP was not yet reached. The domestic economy, particularly consumer-oriented services that depend on coronavirus protective measures, made the biggest contributions to growth in the summer months. On the other hand, the supply shortages for intermediate products and raw materials resulted in negative contributions to growth in the industry, particularly in the third quarter. The supply shortages should be resolved in the course of the year, leading to higher growth rates in the coming quarters.

In the construction industry materials shortages for building materials like wood, steel and insulating materials became apparent from the third quarter onwards. It would appear they have now been overcome and in 2022 construction investments will likely increase by 2.6%. Capacity shortages and the skills shortage are inhibiting greater expansion. Due to protracted planning and approval procedures and a shortage of construction land the excess demand will persist. As a result, construction works and construction land and therefore also property are rising in price.

"The acceleration of planning and approval procedures intended by politicians, not least through the digitalisation of administration, the reduction of bureaucracy, as well as through modular and serial construction, are valid approaches to make housing available more quickly as well as construction cheaper," explains Professor Lars P. Feld from the University of Freiburg, who analysed the overall economic development in the context of the Spring Report 2022. "However, this is countered by selective measures to achieve the climate protection goals. For example, there are additional requirements for energy-efficient renovation or the obligation to install solar panels on the roofs of commercial properties. Within the framework of the construction, housing cost and climate checks announced in the coalition agreement, politics must resolve these conflicting goals so that regulation and bureaucracy do not slow down the desired dynamism in housing construction."

Commercial property: Strong second half-year

In the investment market for commercial property, restrictions on travel and contact in spring 2021 took their toll, but not to the same extent as in 2020. At approximately €60.4 billion the transaction volume for 2021 exceeded the ten-year average (€52 billion) by 16%. Most of the transactions are attributable to the second six months of the year. In the last quarter alone €21.8 billion were generated. At €27.8 billion office property achieved a somewhat better result than in 2021 (46% of total volume). At €10.3 billion logistics and light industrial property were more in demand than in the previous year (€9.3 billion) and for the first time pushed retail property (€9.5 billion) from second to third place as favoured objects for investors. In the hotel investment market revenues remained low, as expected. In that sector the low level of the previous year was reached at just over €2 billion, while the transaction volume for care property and retirement homes increased to €3.7 billion.

Retail and inner city development: support still does not protect against insolvencies and closures

The consumer climate remained clouded by the coronavirus crisis in 2021. A deterioration of consumer confidence with a decreasing propensity to buy is assumed for the first quarter of 2022 due to concerns about inflation and the current/expected fifth wave of infections.

For the entirety of the retail sector for 2021 revenues of €594.4 billion are expected (+3.1% relative to 2020), with €82.2 billion (13.8%) accounted for by online retail. High revenue increases in the area of local supply and e-commerce mask the fact that retail relevant to inner cities in the textiles, clothing, shoe and leather goods segments was marked by significant losses of sales revenues. Revenues in inner cities fell particularly significantly compared to the pre-crisis level (-36%). The improved federal support programmes are still insufficient and insolvencies, branch closures and layoffs are a looming threat.

The outlook for parts of the retail sector outside local supply remains uncertain. A high degree of flexibility therefore remains necessary. At the same time, future requirements with regard to retail property are characterised by diverse trends: Digitalisation enables a response to the long-term change in consumer behaviour and a merging of the online sector with stationary services. To some degree this is already being implemented or tested. However, substantial investments are required, which are out of reach for many small and medium-sized retail companies in view of their depleted reserves.

"It is to be welcomed that politicians have obviously recognised that retail is not one of the drivers of infection," explains Michael Gerling, Managing Director of the EHI Retail Institute, which analyses retail real estate in the Spring Report. "Even though retail closures have been refrained from recently, the access restrictions are hitting large parts of the industry enormously. The positive effects of avoiding retail closures are offset by new obligations for businesses. The access restrictions for many areas of the industry continue to lead to an extremely tense situation. Access controls are costly and they are entirely the responsibility of the companies. Here, measures of a uniform organisation would be extremely helpful."

Carolin Wandzik, Head of Business Area Development at GOS Gesellschaft für Ortsentwicklung und Stadterneuerung mbH and author of the chapter "The Future of Inner City Development" adds: "Every sustainable inner city faces the following challenges: It needs new, invigorating frequency drivers, mobility concepts across all modes of transport and a locally adapted, diverse mix of uses, taking into account functions that have so far been less represented in city centres, such as housing, education, culture, crafts, small businesses and places of communication, so-called third places. Likewise, the public space must be upgraded as an important communication space with a climate protection function. In order to achieve greater multifunctionality in the neighbourhood, flexible structures and spaces are needed. In addition, the diverse inner city actors (local business, property owners, public services, local government, project developers and investors) must see themselves as partners in the sense of collaboration."

In the real estate industry, development towards more mixed-use properties is already underway, with thinking in terms of districts more prevalent. The municipalities must initiate the process of reorienting inner city development and should be supported financially and in terms of staff in the process of developing and implementing a locally adapted inner city strategy. In the implementation of the project, a central role is played by both owners and investors as well as local companies, which contribute to ensuring an attractive utilisation mix that makes the inner cities unique and enlivens them. Companies in aperiodic retail, catering and culture should therefore continue to receive support, in view of the persisting coronavirus restrictions.

Hotel property: situation continues to cause concern

The hotel industry is still affected by the coronavirus pandemic like no other, due to the almost six-month lockdown in 2021 and various travel restrictions, which have resulted in high financial losses. The numbers of overnight stays were comparably low in 2021 as in the previous year. Up to the end of 2021 a volume of overnight stays of approximately 315 million should be expected, i.e. approximately 13 million more overnight stays than in 2020 but 180 million fewer than in 2019.

"Not only hotel operators are worried about the future, but also suppliers and service providers, developers and investors as well as many millions of employees who are directly or indirectly dependent on the hotel industry," says Carstensen. "The concern is also noticeable in the transaction activity of the asset class, which stagnated in 2021 and is thus still far from the record figures of 2019."

In the investment market only a few hotel sales occurred. By the end of the year the transaction volume should reach a total slightly in excess of the level for the previous year of approximately €2 billion. For comparison: In the years preceding coronavirus the €5 billion mark was sometimes exceeded. There is currently also interest in innovative hotel concepts or operator-free properties with restructuring potential. However, the prospects for the hotel property market remain unclear. So far there have been no mass insolvencies and following the lifting of the lockdown tourist demand once again increased in many places, albeit slowly. Despite positive signals from mountain and coastal regions, the situation in cities with high shares of business travellers and foreign guests is precarious. In addition there is a serious staff shortage. Takeovers, increased costs and requirements are likely to slow the construction of new hotels.

Residential property: demand for larger flats is growing

Rents for apartments (quoted rents, hedonic, existing property only) continued to increase in 2021, reaching an average of €8.46/m²/month. At +3.7% the increase was similarly dynamic as in the previous year (+3.1%). The increase in selling prices for condominiums continued to accelerate in 2021. As a national average, relative to 2020 they increased by 14.3% to €3,140/m². The increase was therefore once again slightly sharper than in the previous year, at 11.2%. With regard to new construction of apartments, in 2020 the number of completions again exceeded the threshold of 300,000 for the first time in 20 years, with 306,000 apartments built. In 2021, this figure is likely to have been around 315,000 apartments and new construction is also likely to continue to rise in the coming years. "Despite the high construction surplus, however, the construction of 400,000 apartments per year is hardly achievable in this legislative period," predicts Professor Harald Simons, author of the chapter "Residential Real Estate and Member of the Board at empirica AG. "A further increase in building permits - brought about by whatever instruments - can only pay off in higher completion figures in the next legislative period due to the long construction period, especially for multifamily houses."

Against this backdrop, Simons draws attention to the fact that the number of large households with three or more persons has risen more strongly since 2010 (6.6%) than the number of smaller households (+3.1%), while the increase in new construction has been concentrated exclusively in smaller multi-storey apartments. The consequences for low-income families in particular are drastic. Significantly more than 40% of all low-income four-person tenant households in large cities live cramped on less than 80 m² of living space, almost 20% even on less than 65 m². "Cities are therefore urgently advised to at least review their housing policies and give families a much higher priority," says Simons. "Neither can the cities accept that families leave the cities, nor that the remaining families live in such cramped conditions. Such cramped living conditions are - not only in times of home office and homeschooling - unacceptable in terms of social and housing policy. "

Office real estate: Highest completion volume in ten years

The market for office property is characterised by the effects of the coronavirus crisis, ESG issues, and EU taxonomy. Discussions concerning area reductions resulting from home office arrangements levelled off in 2021. In the investment market the transaction volume increased in 2021 by around 10% to €27.8 billion (2020: €25.1 billion). The seven Class A cities gained in significance and account for 83% of the transaction volume at €23.2 billion. In the Class B cities the investment volume remained significantly below the all-time peak of 2019 (€4.4 billion) and slightly below the level for the previous year (€2.8 billion) at €2.5 billion. The Class C cities recorded approx. €1 billion of revenues from office property, which roughly corresponds to the long-term average value. In the Class D cities the transaction volume slightly increased relative to 2020, amounting to €0.7 billion.

In 2021 new construction in the 127 office markets reached the highest volume of completions for ten years, at 2.8 million m^2 RAC (2020: 2.6 million m²). The largest share is attributable to the seven Class A cities (+14% relative to 2020), at 1.5 million m^2 RAC. Very high completions figures are also expected for 2022, as most current projects are already at an advanced stage of construction. Larger delays are expected due to material shortages and increasing construction costs, primarily with regard to new construction projects.

"In terms of future office space demand, it is hardly likely in the medium term that office space will decrease to the same extent as home office activities will increase," predicts Sven Carstensen, board member of bulwiengesa AG, who analysed the development of office, corporate, logistics and hotel real estate in the Spring Report. "The qualitative demands on office space will also continue to grow - office workers also want to feel comfortable at their workplace. So office space will continue to be in demand in the future - yet it faces intense competition from remote work, creating new challenges for employers and, not least, for property owners and developers. In an increasingly flexible working world, the office serves as a central hub for social exchange, collaboration and creativity. This requires flexible space concepts and a higher proportion of meeting and conference rooms."

Logistics property: Higher demand causes rents to rise

The demand for logistics property is unchanging and is still driven by the e-commerce mega trend. In addition, the benefits of logistics in terms of supply structures are also better appreciated by society as a result of the coronavirus pandemic. At €5.8 billion, the transaction volume in the investment market returned to the pre-crisis level. "There is no doubt that the various value aspects with regard to logistics properties have increased significantly over the course of the last few years and especially against the backdrop of the Corona pandemic," says Carstensen. "The demand for attractive locations, high building qualities and simply the logistics services of various kinds led to intrinsic increases in value." As demand for real estate in metropolitan areas has risen, so have rents for logistics space in Germany's top regions. There, prime rents have grown particularly significantly by around 14.1% since 2016. Peripheral locations are becoming increasingly important, and brownfield developments are also highly relevant.

Light industrial property: New record in investment volume

Following an increase of 87% relative to the previous six months, the activities on the investment market reached a new record high in the first six months of 2021, with an investment volume of approximately €2.9 billion. Transformation property accounted for the largest share. At almost €1.2 billion it reached almost 40% of the total transaction volume. Warehouse and production property also recorded significant increases in the same period to €350 million (+48%) and €922 million (+68%). For industrial estates the transaction volume decreased due to the supply shortage by 23% to €490 million.

Care property: Rising demand for nursing care needs a differentiated provider structure

Investors’ interest in care property has increased very sharply in recent years. The very stable demand/increasing demand due to the demographic change, with a high occupancy rate for care facilities, as well as the long-term lease agreements typical in the care industry, minimise the investment risk. Even though the nursing sector has come under strong pressure in the context of the pandemic due to increased hygiene requirements and workloads coupled with the shortage of skilled workers, this has had no effect on the development of the asset class of care property.

"The ageing of society, the change in household structures, but also the greater employment of women are leading to an increasing external need for care," explains Carolin Wandzik, who also wrote the chapter on "Care Property". "So that the maxim 'outpatient and inpatient' can also apply in the future, alternative forms of living for those in need of care, such as assisted living or shared flats, must be realised in addition to an area-wide and price-differentiated offer of nursing homes. In order to be able to provide this wide range of services, a differentiated provider structure must be supported. In addition, the barrier-free conversion of existing private and institutional real estate is an important pillar; existing funding opportunities should be continued and expanded here.

ZIA

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 350 members, including 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 Dr Andreas Mattner.

With more than 837,000 companies and approximately 3.5 million employees, the real estate sector is one of the largest and most dynamic in Germany. It generated approximately €644 billion in 2021, 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 CO_2 emissions from 209 to 120 million tons per annum between 1990 and 2020.

Contact

André Hentz
ZIA Zentraler Immobilien Ausschuss e.V.
Leipziger Platz 9
10117 Berlin
Phone: +49 30 20 21 585 23
E-Mail: andre.hentz@zia-deutschland.de
Internet: www.zia-europe.eu