

**Summary**

# Spring Real Estate Industry Report 2022

by the Immobilienweisen Expert Panel

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Commissioned by

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German Property Federation

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**Dear Reader,**



Germany has now been laid low by the coronavirus pandemic for two years. Not only because infection figures keep shooting up, many people are getting ill and health protection has become the top political priority, but also because uncertainties, lockdowns and restrictive admission rules are having a detrimental effect on property markets.

Inner cities are particularly affected by this. Many retailers are being forced to shut down due to unsustainable reductions in revenue.

Hotels are closing due to a lack of guests. Travel is also badly affected by the coronavirus crisis. We have not yet emerged from this difficult period. Many property companies still face major challenges.

It is therefore all the more important that politicians, working closely with us, establish the right policy framework for the coming years. The coalition agreement has already laid a solid cornerstone in this respect, through the creation of a discrete construction ministry and the reintroduction of the innovation partnership, for instance – thus fulfilling two central demands of ZIA. On the other hand there are some decisions that we find very questionable. For example, the abrupt discontinuation of the Federal Support for Efficient Buildings (BEG) programme is a major blow for the upgrading of energy performance; the goal of 400,000 new apartments completed at the end of each year has receded into the distant future.

We simply cannot afford projects that hamper construction and block investments. It is therefore all the more important that we keep an eye on current market developments. How are housing markets developing? What does the coronavirus crisis mean for office property locations and retail property? How are our inner cities faring? What is the situation with regard to demand for logistics and light industrial property space?

We have once again commissioned the Council of Real Estate Experts to provide an answer to these and other questions. Since 2003 the council has ensured greater transparency in property markets through its Spring Report, the most important analysis of our industry.

I hope that once again this year this overview will provide you with sound insights into the various asset classes.

Stay healthy!

A handwritten signature in black ink, appearing to read 'Dr. Andreas Mattner', written in a cursive style.

Dr. Andreas Mattner  
President of ZIA German Property Federation

# Spring Real Estate Industry Report 2022 – Summary

## 1. Macroeconomic development

Although in 2021 the German economy grew, with a 2.7% increase in **gross domestic product (GDP) in real terms**, growth remained significantly below the pre-crisis level. In the first quarter of 2021 GDP decreased by 1.9% due to the coronavirus restrictions, growing in the second and third quarters by 2.0% and 1.7% respectively. For the fourth quarter a decrease of 0.5% to 1.0% must be assumed due to new restrictions. 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.

The **labour market** stabilised following the negative development in 2020. The number of employees relative to the previous year increased slightly by 0.6% to 44.9 million and is expected to reach 45.4 million in 2022. The unemployment rate decreased from 3.8% at the height of the crisis to 3.2%. In December 2021 14% fewer people (2.33 million) were registered as unemployed than in the previous year (5.1% unemployment rate). In December 2021 there were almost 800,000 vacancies (approximately one third more than in the same month of the previous year). The skills shortage is particularly apparent in the construction and finishing professions, with a vacancy period of 165 days.

The **rate of inflation** in 2021 was the highest since 1992. In November it reached 6.0% (Harmonised Consumer Price Index, HICP) relative to the previous year. The rate for the whole of 2021 is estimated at 3.2% (HICP). Starting from low energy prices and reduced VAT, the economic recovery and CO<sub>2</sub> charge led to a considerable rise in energy prices. At the same time there were price increases due to increases in demand and supply and transport shortages. With the easing of these special factors inflation is likely to return to a level close to the targeted 2%.

**Financing conditions** remain extremely favourable and will stay that way for the foreseeable future. The ECB is leaving the base rate at 0.0%. However, since October it has somewhat reduced net bond purchases within the framework of the Pandemic Emergency Purchase Programme (PEPP). The Governing Council of the ECB considers the current rise in inflation to be temporary and has decided to maintain financing conditions at the current low level.

Due to the expansionary monetary policy stance, granting of **loans** by banks to the domestic private sector increased in 2021 by 4.2% relative to the previous year, to almost 3,100 billion euros. The volume of residential housing loans increased sharply and now accounts for approximately 53%. Mortgages with an initial fixed interest rate with a term of over ten years remain at a historically low level, though with a slight upward trend, finally reaching 1.3% in December 2021. Granting of loans to companies stalled despite an extraordinarily low interest rate of 1.1% for large long-term loans. A high level of indebtedness and supply shortages are likely to restrain expansions of production.

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. In 2021 building costs for new construction of residential buildings saw the biggest increase for 50 years.

## 2. Office, light industrial, logistics and hotel property

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 euros the transaction volume for 2021 exceeded the ten-year average (52 billion euros) by 16%. Most of the transactions are attributable to the second six months of the year. In the last quarter alone 21.8 billion euros were generated. At 27.8 billion euros office property achieved a somewhat better result than in 2021 (46% of total volume). At 10.3 billion euros logistics and light industrial property were more in demand than in the previous year (9.3 billion euros) and for the first time pushed retail property (9.5 billion euros) 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 2.1 billion euros, while the transaction volume for care property and retirement homes increased to 3.7 billion euros.

### Office property

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.

Following losses in the previous year, **floor-space turnover** increased in 2021 in the 127 largest office markets by 8.5% back to 5.5 million sqm of rental area for commercial use (RAC). The seven Class A cities of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart recorded a sharp increase in revenues by 26% to approximately 3 million sqm (2020: -37%). In the Class B cities office space revenues also increased, albeit less significantly, by +5.6% to 1.3 million sqm, while the Class C cities noted declining floor-space turnover and the Class D cities showed a moderate decrease. Overall, in 2022 a further upturn on the demand side is expected.

In the **investment market** the transaction volume increased in 2021 by around 10% to 27.8 billion euros (2020: 25.1 billion euros). The seven Class A cities gained in significance and account for 83% of the transaction volume at 23.2 billion euros. In the Class B cities the investment volume remained significantly below the all-time peak of 2019 (4.4 billion euros) and slightly below the level for the previous year (2.8 billion euros) at 2.5 billion euros. The Class C cities recorded approx. 1 billion euros 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 euros.



**Net initial yields** decreased further due to the very high investment demand. In 2021 they reached an average of 2.7% (2020: 2.8%) in the Class A cities, 3.9% (2020: 4.0%) in the Class B cities and 4.4% and 5.6% respectively (2020: 4.6% and 5.7%) in the Class C and D cities.

With regard to **rents** (prime rents) there were slight increases in all the city categories in the wake of the stagnation in 2020. Incentives also gained in significance. In the Class A cities rents increased slightly from an average of 34.50 euros (2020) to 35.20 euros/sqm RAC. At 41.00 euros/sqm Frankfurt remains the highest-priced location, closely followed by Munich (39.80 euros/sqm) and Berlin (39.50 euros/sqm RAC). The development in rent levels in the Class B cities was similar, though slightly more dynamic and at a lower level in absolute terms. Rents also increased slightly in the Class C and D cities.

In 2021 **new construction** in the 127 office markets reached the highest volume of completions for ten years, at 2.8 million sqm RAC (2020: 2.6 million sqm). The largest share is attributable to the seven Class A cities (+14% relative to 2020), at 1.5 million sqm 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.

There was a further slight increase in the total **vacancy rate**, which nevertheless remains low at 4.1% (2020: 3.8%) and corresponds to a typical market fluctuation reserve. The Class A cities recorded the biggest increase to a current 4.4% (2020: 3.4%). The vacancy rate in the Class B cities is the lowest at 3.7% (2020: 3.5%), followed by the Class D and C cities (4.1% and 4.2% respectively, 2020: 4.4% and 4.2%).

### Light industrial property

The international term “**light industrial property**” refers to a category of commercial property with a heterogeneous user structure. Unlike logistics property, which is designated for large-scale storage and cargo handling, it also serves the demand for smaller spaces from the production and service sector.

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 euros. Transformation property accounted for the largest share. At almost 1.2 billion euros it reached almost 40% of the total transaction volume. Warehouse and production property also recorded significant increases in the same period to 350 million euros (+48%) and 922 million euros (+68%). For industrial estates the transaction volume decreased due to the supply shortage by 23% to 490 million euros.

The excess demand also caused **rents** to further increase. The average rents for office space in light industrial properties stood at 10.20 euros/sqm in 2021 (2020: 9.95 euros/sqm), flex spaces rose in price slightly to 8.30 euros/sqm (2020: 8.15 euros/sqm), while for production space on average 9.20 euros/sqm (2020: 9.10 euros/sqm) was demanded and warehouse space in the 100 to 500 sqm size class cost 5.70 euros/sqm (2020: 5.60 euros/sqm).

## Logistics property

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 euros 5.8 billion, the transaction volume in the **investment market** returned to the pre-crisis level.

**Yields** decreased, in some cases considerably, due to the high demand. Net initial yields decreased in the Class A markets to 3.26% (2020: 3.77%), the Class B markets stand at 4.4% (2020: 5%) and in Class C and D markets they amount to 5.1% and 5.6% respectively (2020: 5.8% and 6.5%).

**Rents** once again further increased in 2021 in all location categories. The closer the large markets, the tighter the supply of space and the sharper the price increases. In Class A cities prime rents reached 6.94 euros/sqm/month (2020: 6.50 euros/sqm), in the environs of Class B and C cities they stand at 5.25 euros/sqm and 5.14 euros/sqm respectively (2020: 5.11 euros/sqm and 5.02 euros/sqm), while in Class D cities 4.40 euros/sqm (2020: 4.30 euros/sqm) is demanded.

In **new construction** of logistics space a new completions record of almost 6 million sqm was achieved in 2021. The previous peak year of 2019 was exceeded by 1.7 million sqm. For 2022 a total completions volume of 6.6 million sqm is expected. The annual demand for floor space in new buildings is estimated at approx. 7 to 8 million sqm. Peripheral locations are increasingly gaining in significance. Brownfield developments are also highly relevant.

## Hotel property

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. As at the end of October 2021 the volume of overnight stays in Germany was still approximately 38% below the figure for 2019 and even approximately 6% below the figure for 2020. 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.

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 euros. For comparison: In the years preceding coronavirus the 5 billion euros mark was sometimes exceeded. Nevertheless, relative to 2020 investor demand in the hotel market increased somewhat. There is also interest in innovative hotel concepts or operator-free properties with restructuring potential.

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.

### 3. Retail property

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 euros are expected (+3.1% relative to 2020), with 82.2 billion euros (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.

In the **investment market** for retail property investors were more reticent in 2021 than in the previous year. They invested approx. 9.5 billion euros (2020: 12.3 billion euros), corresponding to a significant decrease of 22%. The large volume share and company takeovers that characterised 2020 largely failed to materialise, as did large-volume individual transactions in the shopping centre segment. Many investors favoured specialist stores, DIY stores and particularly grocery stores, as well as properties anchored in the food sector.

**Yields** decreased in 2021 for all types of commercial property. Net initial yields for supermarkets (3.6%, 2020: 4.8%) and hypermarkets (3.6%, 2020: 4.7%) decreased particularly sharply. The figure for specialist stores was equally low as at the end of the year at 3.6% (2020: 4.15%). In 2022, (appreciably lower) yield compression is likely to continue for specialist and grocery stores. The slightly reduced yields for shopping centres indicate an incipient recovery. They decreased in Class A cities to 4.85% (2020: 5.0%) and to 5.9% in Class B cities (2020: 6.0%). In the main shopping streets of the seven Class A cities, the net initial yield was 10 basis points below the figure for the previous year at 3.19%.

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. The switch from pure retail space to meeting places with mixed use is increasingly important, particularly for the centres of smaller cities. Sustainability in retail requires new infrastructure concepts for e-mobility and better energy management.

#### The top seven retail property markets

Although **Berlin** is in first place out of the seven Class A cities in terms of total purchasing power, according to forecasts, purchasing power per capita, at 93.1, will be almost 7% below the German average in 2022. Prime rent<sup>1</sup> in 2021

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<sup>1</sup> Due to the methodology, prime rents should be understood as a guide value for the purpose of comparing cities. They neither reflect an average nor describe the rent level in secondary locations. They merely show the top price segment (usually with a market share of approx. 3% of floor space turnover) and are usually recorded in the absolute top location.



remained at the same level at 340-380 euros/sqm for smaller shop units, while rents for spaces of 300-500 sqm (130-160 euros/sqm) remain in the mid-range for the Class A cities. For 2022 a stable price trend is expected for both size categories.

For **Hamburg**, per capita purchasing power of 107.4 is expected for 2022, i.e. in excess of the German average. At 290-310 euros/sqm for smaller shop spaces the prime rent in Hamburg has increased in price somewhat in 2021 (2020: 240-310 euros/sqm). In 2021 larger spaces of 300-500 sqm continued to generate prime rent of 165-180 euros/sqm, which means the city remains in second place behind Munich. In 2022 declining prime rents are forecast for all shop sizes.

**Munich** remains Germany's highest-revenue retail location. For 2022 a purchasing power index of 130.5 is forecast. In terms of prime rents for small spaces the city is in second place behind Berlin. In 2021 they decreased from 340-360 euros/sqm to 320-360 euros/sqm. The larger spaces (300-500 sqm) remain the most expensive in Germany with prime rent unchanged at 200-230 euros/sqm. The purchase price factor of 40-42 and the gross initial yield of 2.4-2.5 also remain unchanged in 2021. For 2022 hardly any changes are expected.

In **Cologne** a slightly above-average index value for per capita purchase power of 105.3 is forecast. Out of the Class A cities, Cologne once again recorded the second-lowest prime rents for retail premises in all size categories in 2021. Prime rent remain unchanged at 210-235 euros/sqm for smaller shop units and 110-115 euros/sqm for larger ones. For 2022 a fall in rents is expected.

In **Frankfurt am Main** purchasing power is above average at 110.7. Although in 2020 scarcity of spaces in individual locations led to an exceptional slight increase in prime rents, in 2021 prime rent remained stable at 295-310 euros/sqm (80-120 sqm). The prime rent of 145-155 euros/sqm for spaces of 300-500 sqm also remained unchanged. In 2022 rents for larger spaces are likely to remain approximately the same, while a price increase is expected for smaller spaces.

**Stuttgart** has above-average purchasing power, with a forecast index value of 111.2 for 2022. At the same time, top retail rents are the lowest out of the Class A cities. In 2021 the rents for smaller shop units decreased slightly to 140-170 euros/sqm (2020: 150-170 euros/sqm). Larger units also fell in price somewhat, to 70-80 euros/sqm (2020: 75-85 euros/sqm). For 2022 prime rents comparable to those for 2021 are expected.

In **Düsseldorf** purchasing power is also above the national average at 105.6 (forecast for 2022). In 2020 shortages in individual locations led to high prime rents, which increased further in 2021 to 300-310 euros/sqm for spaces of 80-120 sqm. 2022 also shows a rising price trend for small spaces. On the other hand, prime rent for larger spaces remained unchanged at 160-170 euros/sqm, with a stable trend for 2022.

#### 4. Care property

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.

In the **investment market** healthcare property achieved a transaction volume of 3.7 billion euros in 2021. 2.2 billion euros of this was attributable to nursing homes, almost 900 million euros to assisted living facilities and 600 million euros to clinics and medical centres. In the nursing and retirement home segment (care property), revenues increased relative to 2011 (300 million euros) by 780%. In 2016 the transaction volume in care property broke through the billion mark for the first time. Since then it has markedly fluctuated between 1.08 billion euros in 2017 and 3.16 billion euros in 2020. Most of the transactions related to nursing homes. Revenues from retirement homes stood at approximately 28% in 2021.

**Yields** (prime yields) for nursing homes steadily decreased between 2011 and 2021, from 7.4% to 3.9%. In the retirement homess segment, prime yields were still significantly lower, amounting to 2.3% in 2021 (2011: 4.8%). In this segment yields are linked to the yields from residential property.

Despite the huge increase in interest on the part of investors, as in the case of residential property, **new construction** could not keep up with the increasing demand. Suitable building plots and care staff are scarce. There is also some catching up to be done in regard to the **modernisation** of existing care facilities. In some cases they need to be updated both in terms of construction and with regard to the single room requirements. Adaptation of private (owner-occupied) property or rented apartments to meet the needs of the elderly, as well as the construction of new property of this nature, is also an important task for the future.

The current **occupancy rate** in care facilities and the future demographic development differ greatly according to region. It is in the West German states that the need for action is most pressing. In North Rhine-Westphalia approximately 117,000 additional places are needed for the period up to 2040.

## 5. Residential property

**Rents** for apartments (quoted rents, hedonic, existing property only) continued to increase in 2021, reaching an average of 8.46 euros/sqm/month. At +3.7% the increase was similarly dynamic as in the previous year (+3.1%). The sharpest rent increase occurred in the administrative districts of West Germany (+4.1%, 8.27 euros/sqm), while the increase in the independent cities was somewhere more moderate at 3.1% (9.86 euros/sqm). In the administrative districts of East Germany rents increased by an average of 3.9% to 6.27 euros/sqm. In the independent cities of East Germany (excluding Berlin), rents increased by 3.1% to 7.09 euros/sqm. In the Class A cities the average increase for the year amounted to just 2.7% (to 12.27 euros/sqm), meaning that for the third year in a row rents in the seven largest cities increased more slowly than the national average rate.

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 euros/sqm. The increase was therefore once again slightly sharper than in the previous year, at 11.2%. Selling prices have therefore increased by 146% relative to the bottoming out point of the property price cycle in 2009. In East Germany they increased more sharply than in West Germany. The independent cities in the east, excluding Berlin and the administrative districts, recorded increases of

19.6% (to 2,621 euros/sqm) and 16.9% (1,846 euros/sqm). In the west, condominiums increased in price by 15.1% (2,932 euros/sqm) in the administrative districts and 12.5% (4,096 euros/sqm) in the independent cities.

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. Housing construction almost doubled relative to the bottoming out point of the last cycle in 2009, with new apartment blocks accounting for the largest share. Single and two-family house construction has been stagnating for years at around 100,000. In 2021 the number of completed dwellings is likely to have increased further to 315,000.

Due to the increased number of **building permits** the completion figures are likely to slowly increase further in the coming years too. The number of building permits has steadily increased since 2008, more than doubling from 174,000 to 369,000. In 2021 it is likely to have once again increased a little to 384,000.

**Rural areas** benefit from suburbanisation of big cities. The migration losses suffered by the Class A cities, with the exception of Munich, are not a consequence of the coronavirus pandemic, but rather the continuation of a trend reversal that occurred as early as 2015 with a stagnating housing supply that was initially masked by a high level of immigration from abroad. While the seven Class A cities gained a considerable number of inhabitants in the first half of the 2010s, since then the gain has decreased year by year before reaching the zero mark in 2019 or 2020, and recently sinking to a negative figure. The under 18 and 30-50 age groups in particular, which together represent families, as well as over 65s, are leaving the big cities.

### The housing markets of the seven Class A cities

**Rents** (new contract rents) further increased in 2021. If one compares the annual average values, monthly rents for 2020 to 2021 increased most strongly in Berlin (+4.7%, 9.70 euros/sqm), Cologne (+3.9%, 11.30 euros/sqm) and Hamburg (+3.3%, 11.23 euros/sqm). In Munich (+2.6%, 16.99 euros/sqm) and Düsseldorf (+2.0%, 10.89 euros/sqm) the increases were more moderate and in Stuttgart (+1.7%, 12.73 euros/sqm) they were the lowest. The increases were below the national average in all the Class A cities except Cologne and Berlin (+3.7%).

**Selling prices** for condominiums once again increased sharply. Considering the annual average values for 2020 and 2021 they rose most strongly in Düsseldorf (+16.0%, 4,627 euros/sqm) and Cologne (+15.3%, 4,421 euros/sqm). Munich (+12.2%, 8,756 euros/sqm), Berlin (11.9%, 4,922 euros/sqm) and Hamburg (+11.6%, 5,515 euros/sqm) are in the mid-range. Stuttgart (+9.4%, 5,157 euros/sqm) and Frankfurt (+8.7%, 5,690 euros/sqm) recorded the lowest price increases out of the seven Class A cities. The increase in the national average of 14.3% (3,139 euros/sqm) was greater than in Hamburg, Berlin, Frankfurt, Stuttgart and even Munich.

**Yields** decreased further in the Class A cities as a result of another significant increase in selling prices accompanied by a modest increase in rents. The median of the gross initial yields from offers in 2021 stood at 2.2% to 3% in the Class A cities, which corresponds to a multiplier of 33 to 47 annual rents. The gross initial yield therefore decreased by 20 to 30 basis points relative to 2020. It is lowest in Berlin (2.18%) and Munich (2.37%). The values are somewhat higher

for Hamburg (2.67%), Frankfurt and Düsseldorf (both 2.76%) and highest in Cologne (2.97%) and Stuttgart (3.04%). It should be taken into account that the gross initial yield includes neither additional purchase costs nor maintenance costs, let alone investments in existing housing.

**New construction** of apartments is stagnating in all the Class A cities. Though most Class A cities (except for Cologne and Stuttgart) initially succeeded in significantly increasing housing construction, for at least three years the number of completed apartments has failed to increase further. In Berlin the number of completed apartments has fluctuated since 2018 around 18,000 apartments, in Hamburg around 10,000, in Munich around 9,000 and in Frankfurt, since as far back as 2014, around 5,000. A new increase in completion figures cannot be expected either for 2022 or in subsequent years, as the number of approved apartments has not increased in the last one to two years. In Berlin permits issued have decreased by as much as a third since 2016.

### 6. The future of inner city development

The **transformation of inner cities** was already underway before the coronavirus crisis hit. Structural changes in retail and as a result in the inner cities have been strongly influenced by the increased significance of online retail. Also, the one-sided orientation of utilisation structures towards retail has increased the vulnerability of inner cities to crises. Now an opportunity to establish a differentiated, sustainable mix of uses presents itself. In the real estate industry, development towards more mixed-use properties is already underway, with thinking in terms of districts more prevalent. The existing separation of the utilisation classes is blurring. New economic models are emerging with new requirements with regard to operation, maintenance and new construction.

Any future-proof inner city faces the following **challenges**, though in view of the individuality of the cities there can be no blueprint. It needs new, stimulating crowd-pullers, mobility concepts spanning different types of transport and a diverse, locally adapted utilisation mix, taking into account functions which up to now have been less represented in the inner cities, such as housing, education, culture, crafts, small businesses and communication points, so-called “third places”. Public space must also be upgraded to become an important forum for communication with a climate-protecting function. In order to make a district more multi-functional, structures and spaces that can be used flexibly are required. Furthermore, the various inner city players (local business, owners, public services, local government, project developers and investors) must see themselves as collaborative partners. The development of resilient, future-proof inner cities with mixed-use property and spatial concepts will be supported by interdisciplinary transformation management, where control, communication, management and consulting are bundled together. Lastly, an investment-friendly climate should be ensured.

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. A framework for communication needs to be created with the involvement of the inner city players. 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.

The **federation and states** need to act as supporters with respect to (non-bureaucratic) funding programmes and a nationwide exchange of experience (particularly an inner city advisory board – Beirat Innenstadt). Furthermore, the permit procedure should be sped up and geared towards proactive revitalisation of inner cities, with a stronger focus on reconstruction of existing assets. For interim uses and the transformation greater flexibility is therefore required in the repurposing of spaces, to be achieved by simplifying the regulations. Business Improvement Districts also represent an opportunity for cooperative city development. However, appropriate legal foundations do not yet exist in all the states.



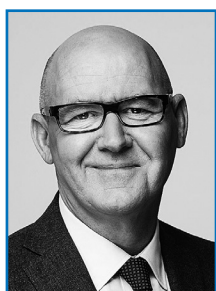
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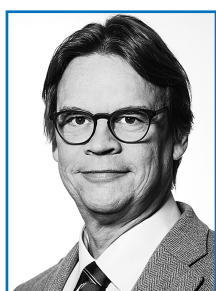
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Editorial staff: Dr Michael Hellwig, Manuel Jahn, Peter Müller

Proofreading and typesetting: Immobilien Zeitung (Thomas Hilsheimer, Simone Scheurer)

Image sources are the companies and persons involved and p. 3: Laurence Chaperon.

ZIA Zentraler Immobilien Ausschuss e.V., Leipziger Platz 9, 10117 Berlin

## 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 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 euros 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<sub>2</sub> emissions from 209 to 120 million tons per annum between 1990 and 2020.

[www.zia-europe.eu](http://www.zia-europe.eu)

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