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Summary

Spring Real Estate Industry Report 2023

by the Immobilienweisen Expert Panel

Prof. Dr. Dr. h.c. Lars P. Feld

Sven Carstensen (bulwiengesa)

Michael Gerling (EHI)

Carolin Wandzik (GOS)

Prof. Dr. Harald Simons (empirica)

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

Dear Reader,

The many voices complaining about the acute housing shortage in Germany could now form a stately choir. Unfortunately, on the occasion of the „20th anniversary of the Spring Report“ they are not singing a serenade but a funeral melody. There are reasons, of course: the deficit is now apparently at its highest level in 20 years. This is all the more serious because affordable, climate-friendly housing is one of the foundations of a good society. But if the gap between cost rents and actual rents is widening at this very moment, then more than „just“ the real estate industry has stumbled in this country. And if, for example, innovative commercial property increasingly offers only theoretical answers to vacancies that cannot be implemented in the end, this also has consequences for the vitality of city centres.

But nothing would be more disastrous than to stop at complaining, especially as the Immobilienweisen Expert Panel points to prospects for every asset class. If the pressure on prices eases as supply chain problems are overcome, energy and commodity prices normalise and interest rates stabilise, positive forecasts will become realistic again. This is not inconceivable.

However, with exorbitant cost increases and rising interest rates setting hard limits on (interim) financing, freedom is needed now more than ever. Financial and „organisational“ freedom. Politics can provide support in both areas.

Accelerated planning and approval procedures as well as consistent digitalisation of building permits are far more than mere procedural simplifications. Germany must finally give the necessary weight to modular and serial construction as promised. The motto is: much helps much.

ZIA is in constant dialogue with political decision-makers – this is also an answer to the crisis. Not the worst.

You will find detailed insights in this Spring Report, which the Immobilienweisen Expert Panel has been producing for us for 20 years. It has long since become the most important analysis of the sector. For this, we would like to express our sincere thanks – also to our supporters.

We hope you enjoy reading this anniversary issue!

Dr. Andreas Mattner
President of ZIA German Property Federation

Spring Real Estate Industry Report 2023 – Summary

1. Macroeconomic development

In 2022 the growth rate of **real gross domestic product (GDP)** in Germany increased in the third quarter of 2022 by 1.8%, exceeding the pre-coronavirus level of 2019 again for the first time. Only in the fourth quarter did growth develop slightly negatively (-0.2%). The Russian war of aggression against Ukraine became a key issue in 2022, and with it the resulting high prices for energy and raw materials. However, at the end of 2022 the latest development of wholesale energy prices and inflation led to a brightening of the economic outlook, and thus a short and mild recession now looks increasingly likely, insofar as a recession occurs at all. The federal government expects real GDP growth of 0.2%.

At year's end the **labour market** is robust and is likely to stay that way in 2023. The working population increased in 2022 by 589,000 or 1.3% relative to the previous year. The seasonally adjusted unemployment rate fell from 3.3% in the previous year to 2.8%. At the peak of the coronavirus crisis it stood at 3.8%. The monthly analysis shows a poorer figure for December 2022 – at 5.4% it exceeded the previous year's figure (5.1%). Though its effects have been moderate so far, forced migration is also likely to lead to a temporary increase when the refugees surge onto the labour market after completing their preparatory courses. But the new possibilities under the Qualified Worker Immigration Act (*Fachkräfteeinwanderungsgesetz*) will help bring about a stabilising effect.

In 2022 **inflation** reached the highest level since data collection began in 1950, at 7.9% (consumer price index, CPI). It was much higher than the rate of inflation during the energy crisis in the 1970s. In October 2022 it increased to as much as 10.4%. The main reasons for this were the catch-up effects in connection with disrupted production and supply chains, as well as (fundamental) extraordinary effects such as the VAT reduction in 2020 and the low energy prices due to the crisis, the latter giving rise to strong inflationary pressure due to crisis-related exploding import prices, particularly for natural gas. Rapid diversification of the gas supply, high gas reserves and a mild winter eased the situation, so a gas shortage is unlikely to occur. Producer prices without an energy component are already decreasing due to a marked easing of the supply chain problems seen during the coronavirus pandemic since June 2022, meaning that while inflation in Germany is likely to remain well over the ECB target value in 2023 at around 6.9% (2024: 2.8%), double-digit rates should no longer be expected.

Financing conditions have deteriorated. The ECB left the base rate at 0.0% in the first half of 2022 despite increasing inflation and purchased further assets within the framework of the Pandemic Emergency Purchase Program (PEPP) and the Asset Purchase Program (APP) up to March and June respectively. Only after the additional increases in energy prices and core inflation did it increase the main refinancing rate to 2.5% (in four rate hikes) by December 2022. Further interest rate increases would be necessary to slow inflation but could exacerbate the imminent recession in the euro area.

Bank lending to the domestic private sector accelerated. It increased by 8.3% in 2022 relative to 2021, reaching €3,350 billion (2021: €3,100 billion). Part of that amount is attributable to KfW promotional loans for the stabilisation of energy companies and a further portion is attributable to the non-financial corporate sector, which used the loans mainly as liquid funds for financing advance payments. Bank lending for housing construction further increased by 6.6% in the third quarter of 2022 relative to the previous year, despite a more restrictive financing environment. This may indicate the bringing forward of property financing in anticipation of increasing interest rates, particularly since a marked downturn in loans with a long-term fixed interest rate could already be seen in the fourth quarter. Households are finding it increasingly difficult to afford credit-financed property purchases, as interest rates and the cost of living have increased and available income has decreased.

In the **construction sector** materials shortages and high price increases for construction materials led, besides high capacity utilisation and a labour shortage, to unexpected rises in costs and increasing cancellations in housing construction. Construction investments, which have traditionally been one of the most important pillars of the economy, saw a more than 1.4% decrease in real terms in 2022. In 2023 they may decrease by 2.5% in real terms. Construction of new housing, which was already declining in 2021, is being further slowed by significantly increased financing costs for credit-financed projects and uncertain revenue development. Besides private individuals, project developers are also increasingly withdrawing from new construction in view of an emerging gap between cost-covering rent levels and actual rents. However, with perhaps the largest housing deficit for 20 years, there are still long-term prospects in the construction sector. For these to be realised, a smart supply policy is required, including, among other things, streamlined planning and permit procedures, building land designation, post-compaction and uniform federal building regulations that encourage serial construction.

2. Office, light industrial, logistics and hotel property

The **investment market for commercial property** got off to a dynamic start at the beginning of the year, but then suddenly collapsed due to increasing uncertainties. The nevertheless relatively good overall result of approximately €51.8 billion for 2022 is attributable to the very high revenues in the first quarter. The ten-year average of approximately €54 billion was not reached. Compared to the previous year there was a marked reduction of approximately €8 billion. The fourth quarter, which saw a result of €9.5 billion achieved, was the weakest in the past ten years.

Office property was the most sought-after asset class in 2022, despite the discussion concerning changed space requirements. Approximately €21.8 billion (2021: €27.8 billion) or 42% of the total volume was invested in this segment. Logistics property was still very much in demand. Transaction volumes for properties of this kind (including light industrial property) reached the previous year's level in 2022, at approximately €10.1 billion. Investments in retail property remained below the €10 billion mark and below the ten-year average of €11.6 billion, at approximately €8.7 billion. On the hotel investment market revenues were 20% lower than in 2021. Other segments, including social and healthcare property and development land, recorded revenues of approximately €9.5 billion. This is a slight decrease of 12% relative to 2021. Transaction volumes for nursing care facilities and homes for the elderly amounted to €2.5 billion, a decrease of 32% year-on-year.

Office property

The **office property** market's response to the increasing economic uncertainties and to the continuing discussion on the effects of remote work and the complex implementation of ESG measures has so far been relatively robust.

On the **investment market** office property revenues decreased by approximately €6 billion compared to the previous year, to €21.8 billion. The seven Class A cities remain approximately at the level of the previous year, with an 82% (€17.7 billion) share in the revenues of the entire office market. In Class B cities the office investment volume once again decreased to reach €1.8 billion (-27.5% or €680 million compared to 2021). By contrast, Class C and Class D cities achieved an increase in revenues of 28.4% to almost €1.3 billion and 10.3% to €783 million respectively.

Yields increased again following twelve years of decline. The weighted average net initial yields reached 3.2% in the Class A cities, followed by the Class B cities at 4.2% and the Class C and Class D cities at 4.6% and 5.9% respectively. The average increase for cities therefore lays between 20 and 40 basis points, with the biggest increase being seen in the Class A cities. The yield difference between top investment properties with a high ESG rating and existing properties with large ESG deficits is growing.

Rents (prime rents) increased again in nominal terms in all city categories. In the Class A cities they increased the most and reached €38.60/m^2 rental area for commercial use (RAC) (2021: €35.70/m^2 RAC). The highest prices are now achieved in Frankfurt (€45.00/m^2 RAC), Munich (€44.50/m^2 RAC) and Berlin (€43.50/m^2 RAC). The rent development in the Class B cities is similar, though at a lower level. Within this category, the highest prices are still paid in Bonn (€24.40/m^2 RAC), Hannover (€18.50/m^2 RAC), Leipzig and Mannheim (both €17.50/m^2 RAC). Price increases were also recorded in the Class C and Class D cities. The increases in the operating costs of office buildings are much sharper: In the Class A cities average operating costs have increased by 63% since 2021.

In the 127 largest office markets, **floor-space turnover** decreased by 5% compared to 2021 to 5.6 million m^2 of rental area for commercial use (RAC). The seven Class A cities Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart recorded a slight increase in turnover of 4%, reaching approximately 3.1 million m^2. Their share in total turnover increased to 57% (2021: 54%). In the Class B cities there was a significant 20% decrease in turnover; in the Class D cities, floor-space turnover decreased even more sharply by 30% (Class C cities: +3%).

In 2022, **new construction** in the 127 office markets, at 2.6 million m^2 RAC, almost reached a volume of completions equal to that of the previous year (2021: about 2.7 million m^2). The largest share is attributable to the seven Class A cities, at 1.2 million m2 RAC or 50%. In the 14 Class B cities, the volume of new floor space that came onto the market (approximately 600,000 m^2) was at its highest level in 20 years. The increase in completions in the Class C and Class D cities was similarly dynamic, at approximately 400,000 m^2 for each city class. A high volume of added floor space in new buildings is also to be expected in 2023. Despite a lack of construction capacity and materials, a fundamental change in the short-term pipeline for projects under construction is not expected. On the other hand, due to changes in the market (an increase in vacancies) and demand patterns (focus on central warehouses, sustainability issues), postponements may be realistically expected with regard to the medium to long-term planning pipeline.

The **vacancy rate** remains low, at 4.2% (2021: 4.1%), and corresponds to a typical market fluctuation reserve. The vacancy rate currently stands at 4.7% in the Class A cities, approximately 3.8% in the Class B and Class C cities and an average of 4.0% in the Class D cities. For 2023, increases in the vacancy rate are to be expected, particularly for the Class A and Class B cities and the floor space with a very limited degree of marketability.

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.

On the **investment market**, contrary to the general trend, transaction volumes for light industrial property showed a slight increase of 6.9% in the first six months of 2022 compared to the first six months of 2021, reaching approximately €1.64 billion. Investors’ interest in industrial estates grew particularly sharply, with a increase in revenues of approximately 55% to €514 million. €562 million was invested in production property. At 34% it still accounts for the largest share of all investments in light industrial property (industrial estates: 31%). A new high of €4.6 billion is to be expected for the year overall.

Yields (gross initial yields, peak) increased again in 2022 after a long period of no growth. They were lowest for warehouse property (3.9%, 2021: 3.8%), followed by transformation property (4.0%, 2021: 3.8%) and industrial estates (4.9%, 2021: 4.7%). They are highest for production property at 5.4% (2021: 5.1%).

In 2022 the trend of increasing **rents** for light industrial property continued. The scarcity of floor space is clearly making itself felt, particularly in the case of property with a high standard of fittings. In the area of prime rents, price levels of €15.00/m^2 for office/social space and €16.40/m^2 for flex spaces have now been reached. In the case of older property with clear disadvantages compared to new, energy-efficient buildings, there has been little in the way of rent increases.

Logistics property

The demand for **logistics property** is consistently high, despite all the economic upheavals and multi-faceted turmoil in the logistics economy and its supply chains.

On the **investment market** the transaction volume remained largely stable, while in other asset classes it declined, considerably in some cases, in the course of the second six months of 2022. In 2022 revenues reached approximately €5.5 billion and are therefore close to the high level of the previous year, when almost €6 billion were generated. Demand is focused on modern buildings that meet energy-related sustainability standards.

Yields increased in the top logistics regions by approximately 20 to 40 basis points over the course of the year, thus putting an end to a period of yield compression lasting several years. Net initial yields (avg.) in 2022 stood between 4.7% (2021: 4.5%) in the Class A cities and 7.1% (2021: 6.9%) in the Class D cities. In the Class B and Class C cities they stood at 5.9% (2021: 5.6%) and 6.5% (2021: 6.2%) respectively. Further yield adjustments are possible with further increases in interest rates.

Rents increased further in 2022 in all location categories due to the consistent demand. Prime rents reached €7.34/m^2 (2021: €6.84/m^2) in Class A cities; in the environs of Class B and Class C cities they stand at €5.63/m^2 and €5.45/m^2 respectively (2021: €5.30/m^2 and €5.17/m^2) and in Class D cities at €4.54/m^2 (2021: €4.32/m^2).

In **newly constructed** logistics space, following a slight decrease in the completion volume in 2020 due to coronavirus, significantly more than 5 million m^2 of new floor space was put on the market in both 2021 and 2022. In fact, a new record volume was achieved in 2022, with this figure reaching approximately 6 million m^2. The largest influx of new space in 2022 occurred in the regions of Berlin (507,000 m^2), Hamburg (409,000 m^2) and Hannover/Braunschweig (381,000 m^2).

Hotel property

At the beginning of 2022, after two years of the pandemic, an imminent recovery of the hotel industry seemed to be in sight. But Russia's war of aggression against Ukraine created uncertainties in the economic cycle of tourism. The mood in the hotel sector is divided. On the one hand there are still challenges in view of the skills shortage, sharply increasing producer and energy prices and construction and financing costs. On the other, some market players, now with more robustly positioned hotels and with business tourism gathering momentum again, are optimistic about the future.

The **number of overnight stays** initially recovered in 2022 and in August was even slightly above the pre-crisis level. Unfortunately, in late summer and autumn this development did not continue. For 2022 as a whole, the total number of overnight stays is assumed to be approximately 455 million. That would be approximately 145 million more overnight stays than in 2021, when the coronavirus crisis was ongoing, but around 40 million less than in 2019, before coronavirus emerged.

On the **investment market** there were hardly any hotel sales in 2022. The transaction volume will likely stand at €1.9 billion at the end of the year. For comparison: the five billion euro mark was sometimes surpassed in the years before coronavirus. In 2023 only slight increases in revenues are to be expected. Many investors are waiting to see what locations, concepts and operators prevail on the market or are focusing their search in Class C and Class D cities with a high level of domestic tourism for sustainably positioned, forward-looking hotel properties. At the same time interest in purchasing serviced apartments is growing.

The **average room rate** increased. German hotel chains were able, for example, to increase this rate to over €100 for the first time in the first ten months of 2022, which is almost 8% higher than in 2019. However, the growth in revenues is accompanied with sharply increased operating costs and expenses for services.

The **prospects** for the hotel property market remain unclear. As tourist demand has further recovered in Germany and the economic outlook is improving somewhat, the mood is expected to brighten at least a little in 2023. The tense financial situation of many operators is affecting the real estate sector in the form of an ongoing switch from a lessor's to a tenant's market. This will lead, at least in 2023, to a further decrease in the volume of new construction.

3. Retail property

Retail achieved revenues of €633.4 billion in 2022. This corresponds to a 8.2% growth in nominal terms compared to 2021 but, in view of the sharp increase in prices caused by inflation, a 0.3% decrease in real terms. High-street retail developed better than online retail. Footfall in inner cities largely recovered. The retail shops increased their revenues by 9.3% in nominal terms to €548.7 billion (2021: €502 billion). Online retail normalised after the boom it experienced due to coronavirus. In 2022 it recorded a 2.3% decrease in nominal terms and 7.2% decrease in real terms.

The **consumer climate** cooled off in the first three quarters of 2022 and reached an all-time low in October, with an index value of -42.8 points, which is in fact far below the previous record low recorded during the first coronavirus lockdown (-23.1). At the end of the year it stabilised at a low level, with further slight recovery trends.

The **investment market** for retail property saw robust development in 2022. The transaction volumes, at €9.4 billion, stood at 4% below the previous year's figure and 18% below the ten-year average. €2.1 billion was generated in the first quarter and €1.6 billion in the second quarter. The volume increased significantly in the third quarter compared the same quarter of the previous year due to the takeover of Deutsche Euroshop by Oaktree and Cura, rising by 87% to €3.3 billion. In the fourth quarter the transaction volume stood at €2.5 billion. With a new price level, there will be an uptick in transactions in 2023, particularly in view of the fact that globally there is still abundant available liquidity. On the investor side there is likely to be interest in all subsegments.

Yields (net initial yields, peak) increased in 2022 across all retail property by between 0.25% and 0.85%. They reflect the wait-and-see attitude of investors. For 1a retail property in the Class A cities, yields most recently stood at 3.9% (+0.7 percentage points compared to 2021). For shopping centres, yields stood at 5.1% (+0.25 percentage points) in A-locations and 6.5% (+0.6) in B-locations. In the case of specialist stores, they increased particularly sharply for free-standing non-food specialist stores (5.75%, +0.85). Supermarkets, hypermarkets and retail parks (4.3% each, +0.7) and DIY stores (4.75%, +0.45) are still seen as comparatively low-risk investments.

Current **developments** that will shape the market for retail property include the adjustments in energy management/building structure that are required due to increasing energy costs and ESG requirements, the efforts of municipalities to revive inner cities, the merging of online and high street retail into connected retail, quick commerce and last-mile micro-hubs in the mail order business, and the contribution made to the shopping experience by catering.

The top seven retail property markets

While **Berlin** is in first place in terms of total purchasing power, as the largest city in terms of population, purchasing power is actually below the German average, with an index value of 94.0 / €24,683 per capita per annum. The retail peak rent decreased slightly in 2022 both for retail premises between 80 and 120 m^2 and those between 300 and 500 m^2 and now stands at €320-360 / €120-150/m^2/month (2021: €340-380 / €130-160/m^2). Stable rents are expected for smaller retail premises and decreasing rents for larger ones.

In **Hamburg** per capita purchasing power remains above the German average, with an index value of 106.9. With prime rent sitting at €270-310/m^2, the rents for smaller shop premises remained largely stable (2021: €290-310/m^2). In the case of larger spaces of 300-500 m^2, rents decreased in 2022 to €110-150/m^2 (2021: €165-180/m^2). Further rent decreases for all shop sizes are forecast for 2023. The rate of availability of rental premises is relatively high at 19% and lies three percentage points above the average value for the Class A cities.

Munich remains in first place among German cities in terms of its population's purchasing power, with a purchasing power index of 128.9. With prime rents for small spaces of €340-380/m^2 (2021: €320-360/m^2) Munich has pushed Berlin out of first place in the ranking of the most expensive retail locations. Larger spaces (300-500 m^2) can be rented for €190-210/m^2 and, despite a slight decrease (2021: €200-300/m^2), are also the most expensive in a nationwide comparison. No noteworthy changes are expected for 2023. At 10%, the vacancy rate in Munich is relatively low.

In **Cologne** the index value for per capita purchasing power is slightly higher than the national average, at 104.8. The prime rent for smaller shop premises recently decreased from €210-235/m^2 (2021) to €200-220/m^2. Larger premises decreased in price to €100-110/m^2 (2021: €110-115/m^2). A further decrease in rents for smaller retail premises is expected for 2023, while prices for larger premises are forecast to remain stable.

In **Frankfurt am Main** purchasing power remains above average, at 110.2. Retail premises with an area of 80-120 m^2 remain comparatively expensive at €290-310/m^2 (2021: €295-310/m^2). The prime rent for larger spaces of 300-500 m^2 also remained largely unchanged, at €140-160/m^2 (2021: €145-155/m^2). In 2023 rents are likely to remain stable.

While **Stuttgart** has above average purchasing power, with an index value of 110.4, peak retail rents are also the lowest there compared to the other Class A cities. In 2022 rents for smaller shop units decreased slightly to €130-150/m^2 (2021: €140-170/m^2). Prices for larger ones remained stable at €70-80/m^2. For 2023 further rent decreases are expected for small premises; for larger stores they will remain the same.

In **Düsseldorf** purchasing power is significantly above the national average, at 115.3. At the peak, as in the previous year, €300-310/m^2 is being asked for spaces of 80-120 m^2. For larger spaces rents increased slightly to €170-180/m^2 (2021: €160-170/m^2). Rents for smaller premises will stay at their current level in 2023. In Düsseldorf increasing rents are forecast for larger premises relative to the other Class A cities.

4. Social and healthcare property

Demand for **care property** and retirement homes remains very stable due to demographic changes. The resulting high capacity utilisation of care facilities and the long-term lease agreements typically seen in the care industry minimise the investment risk. However, there are challenges due to increases in construction and investment costs and service charges, a more restrictive financing environment and the still unresolved skills shortage issue.

On the **investment market** the total transaction volume for social and healthcare property in 2022 amounted to approximately €2.3 billion. Approximately €1.7 billion of this amount was attributable to nursing and retirement homes and €638 million to clinics and medical centres. The volume in the area of nursing and retirement homes plunged by approximately 45% relative to the previous year, dropping to €3.07 billion (nursing homes -48%, retirement homes -35%). For comparison: The peak value in 2020 stood at €3.16 billion.

Yields (prime yields) for nursing homes continually decreased between 2012 and 2021, falling from 7.4% to 3.9%. In 2022 they finally increased again to 4.3%. They stood at 3.25% to 3.5% in the retirement homes segment in 2022.

Supply of nursing homes is currently stagnating in Germany. The number of new openings (102) and closures (117) almost balanced each other out in 2022. At the end of the year 230 nursing homes were under construction. In order to meet the additional demand created by demographic conditions, **new construction** would have to gain significant momentum. For retirement homes, assuming that around 10% of over seventies prefer this form of housing, there is already a supply gap of 550,000 housing units as things currently stand. This gap will grow to almost 1 million by 2040, and the current new construction rate of around 6,000 apartments per annum will not be enough to close it.

The current **capacity utilisation** of care facilities, as well as future demographic development, differs greatly between regions. The greatest need for action remains in the West German states. There, capacity utilisation of these facilities is already very high and demand in these areas will also increase very sharply in the future. In North Rhine-Westphalia alone, for example, approximately 117,000 additional care places will be needed by 2040.

5. Residential property

On the market for **residential property**, the immigration of an estimated 1.1 million people from Ukraine due to the war led to significant additional demand for approximately 200,000 apartments.

Rents for apartments (quoted rents, hedonic, existing property only) also increased further in 2022 and reached an average of €9.10/m²/month at the end of the fourth quarter. The +5.2% increase was significantly sharper than that of previous years (2020: +3.1%, 2021: +3.7%). The sharpest rent increases and the highest rents were recorded in the independent cities in the west, costing €10.79/m² (+5.9%) on average. In the independent cities in the eastern states (excluding Berlin) there was an increase of +5.7% to €7.65/m². In the administrative districts rents also increased significantly, albeit less dynamically than in the cities, rising by +4.8% to €8.81/m² (west) / +4.6% to €6.69/m² (east).

Selling prices for condominiums (quoted prices, hedonic, existing property) once again significantly increased across Germany compared to 2021, jumping by 7.8% to €3,324/m². However, there was a 3.2% decrease compared to the second quarter of 2022 – this decrease was greatest in the West German independent cities (-4.4%). Average prices there (fourth quarter of 2022) stood at €4,221/m². €3,145 Euro/m² was the average asking price in the West German administrative districts and €2,798/m² in the independent cities of the eastern states excluding Berlin. Residential property in their administrative districts cost €2,052/m².

With regard to **new construction** of apartments in 2021, the number of completions slipped back below the threshold of 300,000, which was first surpassed in 2020, with 293,500 apartments being built (-4.2% relative to 2020). This decrease was surprising. The considerable construction backlog of 780,000 apartments as at the end of 2020 actually raised the prospect of a slight increase in completion figures in 2021. It seems likely that the completions were reported and registered late due to the lockdown, thus distorting the figures. The number of building permits has stagnated in the last five years or so and has only increased very slowly to the recent (2021) figure of 380,000. In 2022 it seems that the construction of just 364,000 apartments was approved. The cost-increasing challenges in residential construction will make themselves felt primarily from 2024 onwards in the form of a declining volume of newly constructed housing.

The **vacancy rate** for market-active apartments (apartments which can be occupied immediately or at short notice) stagnated in 2021, sitting at approximately 600,000. This corresponds to 2.8% of the housing market. In 2021 and in previous years supply and demand developed more or less in lockstep. In 2022 this changed. The demand for housing increased more sharply than supply, and the vacancy rate seems to have decreased again. A further decrease in the vacancy rate is also to be expected for 2023, depending on how the situation in Ukraine develops.

The housing markets in the seven Class A cities

Rents (quoted rents) in the Class A cities, with the exception of Cologne and Berlin, showed increases compared to 2021 that were below the national average. In the fourth quarter, rents were, in descending order, €18.07/m^2 in Munich, €13.63/m^2 in Frankfurt, €13.45/m^2 in Stuttgart, €12.39/m^2 in Cologne, €12.27/m^2 in Berlin, €11.87/m^2 in Düsseldorf and €11.83/m^2 in Hamburg.

The development of **selling prices** for condominiums showed a change of trend in 2022, including in the Class A cities. Although there was a marked increase of up to 6.2% (Berlin) relative to the previous year, comparison of the second quarter and fourth quarter of 2022 shows a reversal in this trend, with prices falling. The main reason for this, as is the case for Germany as a whole, are the sharply increased interest rates. In the fourth quarter of 2022, selling prices ranged from €8,645/m^2 in Munich to €4,550/m^2 in Düsseldorf. In between, in descending order, are Hamburg (€5,593/m^2), Frankfurt (€5,521/m^2), Berlin (€5,158/m^2), Stuttgart (€5,044/m^2) and Cologne (€4,582/m^2).

New construction of apartments has stagnated in all Class A cities in recent years. In 2021 completion statistics even show a decrease in most cases. For 2022 a slight increase in completions can be expected, depending on possible late reporting of completions from 2021. The new challenges that have emerged within the housing market in 2022 will only begin to be felt further down the line due to the long construction times. The number of building permits has been decreasing in all the Class A cities for years and is likely to drop further in 2022.

Following stagnation or even a slight recovery of the **vacancy rate** in previous years, it will have decreased again in 2022. The Class A cities saw an immigration wave accompanied by stagnating growth in completions. In 2021, all cities were far from having a sufficient fluctuation reserve, with market-active vacancy rates of between 0.2% in Munich and 1.4% in Düsseldorf (Berlin: 0.8%).

6. The future of inner city development

The **inner cities** are facing structural challenges, caused or exacerbated by temporary crises such as the Ukraine war and the coronavirus pandemic: vacancies, store closures, longer marketing periods for real estate and declining purchasing power. The municipalities have already been granted emergency aid to initiate change processes, but this alone is not enough to bring about sustainable change. New communication structures, networks and implementation strategies covering all types of property and buildings are required in order to change the monostructural orientation of utilisation structures. However, in the midst of this difficult situation there are also opportunities for positive changes.

Starting points for achieving **future viability** and improving the attractiveness of inner cities include the creation of a wide range of attractions for visitors, with short journey times and a (climate-friendly) mobility concept that spans all forms of transport, a public space that provides a non-commercial venue for exchange and communication, and a broad and resilient utilisation mix, including housing, public administration, education, culture, trades, small businesses and social facilities. Coordinated climate resilience measures (e.g. preventing heat islands, sponge city concepts, shading, planted roofs/façades) also help improve the quality of the often very much sealed-off inner cities for all user groups. To this end, an investment-friendly climate should be created and all utilisation classes and inner city stakeholders should be granted equal involvement as part of an interdisciplinary, external transformation management process.

Existing supporting **instruments** include emergency programmes, specialist federal and state funding programmes and urban development funding. These vary with regard to their objectives, eligibility criteria and duration. However, combining these instruments should be explicitly made possible to allow the structural transformation to be approached at the level of individual districts, individual measures to be coordinated with each other and synergies to be achieved. In view of the limited financial and personnel resources available to the municipalities, which in some cases are unable to afford their own required contribution, sufficient financial resources must be allocated to these funding programmes. In order to compensate for the lack of funds contributed by the municipalities, the potential for cooperation between public and private actors could be exploited by making urban development funding available for private co-financing of urban development measures. The Business Improvement Districts (BIDs) instrument, which has proven to be crisis-proof, can also be used as an example. Lastly, streamlined, digitalised planning processes are required to enable new utilisation concepts to be promptly implemented.

The authors of the Spring Real Estate Industry Report 2023

Professor Lars P. Feld, author of the chapter “Macroeconomic development”, is a university professor for economics, particularly economic policy and constitutional economics, at the University of Freiburg and Director of the Walter Eucken Institute. Among other things he is a member of the Scientific Advisory Board at the Federal Ministry of Finance. From 2011 to 2021 he has been a member and later chair of the Council of Experts for the Assessment of Macroeconomic Development. Since 2022, Feld has been the personal representative of the Federal Minister of Finance for macroeconomic development. Co-author: **Patrick Hirsch, M. Sc.**, a research administrator at the Walter Eucken Institute in Freiburg since 2016 and research associate at the Chair for Economic Policy and Constitutional Economics at the University of Freiburg.

Sven Carstensen, author of the chapter “Office, light industrial, logistics and hotel property”, has been a member of the executive board at bulwiengesa AG responsible for the office and commercial sector since 2020. In addition, as a certified property surveyor he is Managing Director of subsidiary bulwiengesa appraisal GmbH. Co-authors: **Alexander Fieback, Dierk Freitag, Oliver Rohr, Felix Werner, Daniel Sopka** and **Andreas Wiegner** from bulwiengesa AG.

Michael Gerling, , author of the chapter “Retail property”, has been managing director of the EHI Retail Institute in Cologne since 1999. Since 2004 he has also headed MLF Mittelständische Lebensmittel-Filialbetriebe e.V., the umbrella organisation for independent traders in the food retail sector in Germany. Co-authors: **Lena Knopf**, project manager of the property and expansion EHI research field, and **Jan Schwarze** (CBRE).

Carolin Wandzik, author of the chapters “Social and healthcare property” and “The future of inner city development”, has headed the business segment development and planning and concepts department at GOS, Gesellschaft für Ortsentwicklung and Stadterneuerung mbH, since 2021. Before that she worked in managerial positions, most recently as director at GEWOS Institut for Stadt-, Regional- and Wohnforschung (institute for city, regional and housing research). As a trained facilitator she also designs municipal strategy projects.

Prof. Dr. Harald Simons, author of the chapter “Residential property”, studied political economics in Bamberg, Colchester (GB) and Bonn and was awarded a doctorate in Magdeburg in 2008. He has worked at empirica since 1993, since 2002 as a member of the executive board. Since 2010 he has also held a professorship in microeconomics at Leipzig University of Applied Sciences. Co-authors: **Arnaud Salla**, undergraduate assistant, empirica.

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 390 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 about 800,000 companies and approximately 3.5 million employees, the real estate sector is one of the largest and most dynamic in Germany. It generated approximately 645 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_2 emissions from 210 to 115 million tons per annum between 1990 and 2021.

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

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