Summary

Spring Real Estate Industry Report 2024

by the Immobilienweisen Expert Panel

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Dear Reader,

The situation was dark, got darker and will get darker still? It is not that simple. The Spring Report shows that, despite geopolitical risks and economic policy uncertainty, an overall economic upturn is possible. And the real estate industry can also play a part in this process. More precisely: it must. Because it lays – literally – crucial foundations for economic strength and social cohesion. And this absolutely needs stability. More than ever in 2024.

The construction industry is under severe pressure from supply bottlenecks, inflationary price increases, a shortage of skilled labour and high interest rates. However, the Immobilienweisen Expert Panel also point to opportunities for recovery in many areas. Though, for a radical turnaround to become a realistic option for the sector, which „supplies“ almost 20 per cent of total gross value added, breathing space is essential.

This means that the brighter outlook predicted by the Expert Panel will not materialise as naturally as the weather. One figure speaks volumes: with 37 per cent of new housing construction costs attributable to the state, Germany occupies a top position in Europe, which is definitely dispensable. It is precisely the withdrawal of political requirements – in terms of conditions and direct costs imposed on the real estate industry by Europe, the federal government and the federal states – that promises huge potential for change. New dynamism through restraint, so to speak.

Residential construction is –of course – only one of the many fields of the real estate industry. However, it is eminently important as the basis for all other uses and our cities. All the more so in times when people from other countries are seeking refuge in Germany. After all, housing is an essential factor that can determine social cohesion. This has rarely been as important as in these heated times.

The situation in the real estate industry as a whole therefore requires a rigorous departure from routine mode at the start of 2024. Detailed information on the status quo and possible answers can be found in this Spring Report. In over 20 years, this compendium has become the industry‘s key indicator. We would like to thank our Expert Panel for their valuable analyses – and also all of our supporters.

Dr. Andreas Mattner
President of ZIA German Property Federation

Spring Real Estate Industry Report 2024 – Summary

1. Macroeconomic development

Real gross domestic product (GDP) decreased in Germany in 2023 by 0.3% relative to the previous year. Although at the beginning of the year the forecast of the German Council of Economic Experts was more optimistic at 0.2%, in its annual report in autumn it revised it to -0.4%. It justified this change based on the decrease in public consumption as a result of expiring corona aid, high energy prices due to the war, consumer reticence and losses of real income suffered by private households due to inflation and the more restrictive monetary policy, the latter leading to an unfavourable financing environment and appreciably slowing investment activity, particularly in the area of construction. Despite geopolitical risks and uncertainty as regards economic policy, in the current year there is likely to be a gradual macroeconomic upturn.

Despite the weak economy the **labour market** remained stable. At the beginning of 2023 the working population was still 1.0% higher than the figure for the previous year. It increased further, though steadily losing momentum. In September it reached the 46 million threshold for the first time, and then stagnated towards the end of the year. For the whole of 2023 the increase in the working population is estimated at +333,000 (+0.7%) – significantly less than in the previous year. The seasonally adjusted unemployment rate fluctuated in 2023 between 2.9% and 3.2%. The burdensome effects of the demographic change could still be compensated for by increased labour market participation by the domestic population and the positive effects of immigrant foreign workers entering the German labour market. However, the outlook in terms of future development is cautious. In the construction industry the first fall in employment since the financial crisis in 2008 might occur.

Inflation initially remained high in 2023. In January it stood at 8.7% (consumer price index, CPI) compared to the same month of the previous year and on average exceeded 7% in the first six months. A decrease occurred up to October 2023 to 3.8%, for the first time to a level similar to that prevailing at the beginning of the Russian invasion in February 2022. In December it increased again slightly to 3.7%, mainly due to base effects resulting from the federal government's emergency aid measures. As an annual average, in 2023 the rate of inflation stood at 5.9% and thus significantly below the inflation level for the previous year of 7.9%. With regard to building costs, the stagnation in the two last quarters shows a cooling of price trends, which is likely to continue due to the falling construction demand. For 2024, the institutes forecast an average inflation rate of 2.68%.

Financing conditions have continued to tighten. As expected, the ECB continued its more restrictive monetary policy. Following the last interest rate hike in December 2022 it raised the base rate further in February 2023 from 2.50% to 3.00%. March saw the next increase to 3.50%, and May a smaller adjustment to 3.75%. Inflation remained high, reaching 4.00% and 4.25% in June and August respectively. In September the last increase for 2023 occurred, to 4.50%. Since then, following a steep increase, the interest rates for the main refinancing operations, the marginal lending facility and the deposit facility have stood at 4.50%, 4.75% and 4.00% respectively. The ECB council considers this interest rate level to be sufficient for the time being to bring inflation back to the target value of 2% in the medium term. However, an excessively rapid reduction of base rates should not be expected.

Bank lending to companies and private households was still developing dynamically in 2022, with an increase of 6.6% relative to the previous year. In 2023 the trend came to a halt. Granting of residential mortgages increased in the first three quarters of 2023 on average by less than 0.5% relative to the respective previous quarters. The high interest rates and generally weak economy are weighing down on private households and make it difficult for them to make credit-financed property purchases. In the first six months of 2023 only half as many residential mortgages were granted to private households as in the previous year.

The **construction sector** has been severely burdened since 2022 by supply shortages, increased building costs, the persistent skills shortage, inflation and high interest rates. In addition, demand is falling, leading to an alarming decline in orders received in the area of housing construction. Construction projects are no longer profitable; completion figures are falling. The business climate in housing construction is at a historical low since records began in 1991. The wave of cancellations in housing construction reached its peak in 2023, with 20.7% of companies reporting cancelled projects. At the end of 2023 almost one in two companies in housing construction reported a shortage of orders. The risk of loss of liquidity has increased, which could also be problematic for financial stability. Only the finishing trades benefited from increased demand in the second quarter of 2023, in the area of energy-efficient renovation. In view of negative business expectations and unfavourable general conditions, the declining trend with regard to building permits and building completions will persist in the coming years, housing market supply will fall and the pressure on rents will increase. In order to stimulate investment activity, economic policy could focus on supply-side measures which are also workable when public funds are scarce: tax relief (real property transfer tax and property tax) and reduction of regulatory costs (reducing the multitude of individual regulatory measures in housing construction).

2. Office, light industrial, logistics and hotel properties

On the **investment market for commercial real estate** 2023 saw a clear turnaround. By the end of the year the transaction volumes in the commercial real estate segments had barely reached 23 billion euros. Compared to the previous year (51.8 billion euros) this represents a decrease of approximately 56%, more or less to the level of 2011. The average for the last 10 years of approximately 54 billion euros was significantly fallen short of. Following a weak beginning, the hoped-for recovery at the end of the year failed to materialise. Nevertheless, in the third and fourth quarters transactional activity increased slightly again, with revenues of 6.0 billion euros in each case.

For the first time the highest revenue share (27%) is accounted for by the industrial usage segment (logistics, light industrial, production, industrial estates, data centres, etc.). With a result of approximately 6.1 billion euros, it came out ahead of retail properties (5.7 billion euros, 24.8%) and office properties (5.6 billion euros, 24.4%). In the hotel properties segment 1.4 billion euros of revenues were generated, while other segments, including social and healthcare properties and development sites, generated approximately 4.2 billion euros in revenues. The necessary price adjustments due to the change in the capital market environment will be largely complete by the end of 2023. Only small increases in returns and a slow upturn of investment markets are expected in 2024.

Office properties

The market for **office properties** is being affected by the economic uncertainty. The interest rate turnaround, geopolitical upheavals, increased energy prices, uncertainty regarding the consequences of energy policy, the effect of the skills shortage and demographic change affecting the number of office workers, the effects of the flexibilisation of work organisation and the complex implementation of ESG measures continue to trouble market participants.

On the **investment market** office properties revenues collapsed by 74% (16 billion euros) relative to the previous year, to 5.6 billion euros. The marked decrease in the revenue share of Class A cities is striking: Having reached 82% in the previous year, in 2023 the major German office markets only reached approximately 59% or 3.3 billion euros. In the Class B cities, the total halved to 900 million euros, and in Class C and D cities a total of approximately 1 billion euros was recorded. At 350 million euros, locations outside the city classification more than doubled the revenues for the previous year.

Yields for office properties once again increased significantly in 2023. The highest increases were observed in the Class A cities, to 4.1% (+90 basis points relative to 2022). In Class B and C cities, they increased by 60 basis points to 4.8% and 5.2% respectively. The smallest price adjustments occurred in Class D cities, with 6.1% (+30 basis points compared to 2022). Munich is the most expensive office location, with prime yields of 3.9%. Berlin follows with 4.0%, then Hamburg, Frankfurt and Cologne with 4.1% each and Düsseldorf and Stuttgart with 4.2% each.

Rents (prime rents) increased further due to high construction costs and higher user requirements with regard to location and property quality. In the Class A cities, the weighted average of prime rents increased from 38.60 to 40.30 euros/m^2 RAC (rental area for commercial use). Munich (46.50 euros/m^2) took over from Frankfurt (45.10 euros/m^2) as the most expensive location. Berlin is next at 44.50 euros/m^2. The largest rent increases occurred in Cologne and Düsseldorf, with an increase from 27.50 to 32.10 euros/m^2 and 32.50 to approximately 36.00 euros/m^2. In the Class B cities, increases also occurred, by an average of 60 cents to the current 17.30 euros/m^2. The most expensive location is still Bonn (24.80 euros/m^2), followed by Dresden and Hannover (both at 19.00 euros/m^2) and Leipzig and Mannheim (both at 18.50 euros/m^2). In the Class C and D cities, prime rents amount to an average of

14.70 and 11.60 euros/m^2 (previous year: 14.40 and 11.30 euros/m^2). The highest rents are no longer found only in city locations, but also in established fringe locations in cities or office centres with a high share of new construction.

Floor-space turnover decreased in the 127 largest office markets due to a marked decline in new large-volume rental agreements relative to 2022, by more than 25% to 4.24 million m^2 RAC. The seven Class A cities Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart recorded the largest decrease of almost 30%, to approximately 2.2 million m^2, as low as the level for 2009. In the Class B cities, turnover sank to less than 1 million m^2. This is the lowest value in the last 10 years. The Class C and D cities (482,000 m^2 and 563,000 m^2) also suffered declines in turnover. In 2024 an upturn of demand is likely to occur, floor-space turnover of 4.0 to 4.5 million m^2 being a realistic figure.

In 2023, **new construction** in the 127 office markets increased again to the above-average level for the years 2021 and 2022, at approx. 2.6 million m^2 RAC. The seven Class A cities accounted for around 50% of new office space, with a total of about 1.3 million m^2. In the 14 Class B cities, the high volume for 2022 was once again exceeded, with an average of 43,000 m^2. The Class C and D cities also recorded high increases, with approximately 362,000 m^2 each. In view of replete project pipelines, in all city classes further newly constructed space is to be expected in the short term – for projects under construction with high pre-lease rates and whose construction phase has come to a standstill, short-term solutions will be found. In the medium term the changed market conditions are likely to have a greater effect – for example a significantly lower number of completions should be expected from 2026 onwards.

The **vacancy rate** in 2023 is approximately 50 basis points higher than the figure for the previous year, at a rate of 4.8%. Despite the increase it remains within a fluctuation reserve typical for this market. Especially the Class A cities (5.6%) face increasing vacancy rates, caused by falling demand and high completion figures. Class B and C cities (4.4% and 3.9%) are developing similarly in this respect, only less dynamically. In the Class D cities, the level remains stable overall, at an average of 4.0%.

Light industrial properties

The international term "**light industrial properties**" refers to a category of commercial real estate with a heterogeneous user structure. Unlike logistics properties, which are 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** the negative trend in the first six months of 2023 persisted. Compared to the first six months of 2022 the investment volume decreased by 29% to 950 million euros. Demand was primarily for modern business parks. Out of all property types they achieved the largest share of the transaction volume, with 454 million euros, followed by production properties at 370 million euros. For the whole year it should be assumed, due to the difficult political and economic framework conditions, that the transaction volume for light industrial properties will not exceed a level of 2 billion euros. That corresponds to a value lying approximately 35% below the previous year and below the long-term average.

Yields (gross initial yields, prime) increased in 2023 relative to 2022, in some cases very significantly. They were lowest in the first six months of 2023 for transformation properties (4.9%, 2022: 4.0%), followed by warehouse properties (5.0%, 2022: 3.9%) and business parks (5.8%, 2022: 4.9%). They are once again highest for production properties, at 6.1% (2022: 5.4%).

Rents rose again in 2023, and even more dynamically than in the previous year. Modern premises will remain in short supply amid high demand and new-build space will become more expensive due to rising construction costs and higher equipment quality. However, the tough economic situation will push more users to their limits, meaning that the rise in rents will level off slightly. Prime rents of 10.60 euros/m^2 for production space and 17.00 euros/m^2 for flex spaces are currently being demanded.

Logistics properties

In 2023 the market for **logistics properties** was faced with a similar outlook as in the previous year. Cargo handling has slowed, and many companies are supplementing their storage capacity to increase their resilience. Nevertheless, demand for logistics space still exceeds supply.

On the **investment market** the transaction volume declined. While 5.5 billion euros was invested in 2022, in 2023 the figure was a mere 3.9 billion euros. Because hardly any space is available in the Class A cities, users are increasingly resorting to other major logistics regions, where own developments are also more feasible due to the greater supply of space.

Yields for logistics properties further increased in 2023. In 2023 net initial yields (prime) stood at between 4.1% (2022: 3.6%) in the Class A cities and 6.3% (2022: 5.8%) in the Class D cities. In Class B and C cities, they reached 5.0% (2022: 4.6%) and 5.7% (2022: 5.3%) respectively. With further increases in interest rates, further yield adjustments are possible.

Rents further increased dynamically in 2023. In the Class A cities, prime rents reached 8.67 euros/m^2 (2022: 7.76 euros/m^2), in the Class B cities they stand at 6.26 euros/m^2 (2022: 5.85 euros/m^2), and for locations in the catchment area of Class C and D cities the asking price is 5.88 euros/m^2 and 5.16 euros/m^2 (2021: 5.53 euros/m^2 and 4.83 euros/m^2).

In **new construction** of logistics space, increasing construction costs, more challenging financing conditions and the continuing scarcity of land have begun causing difficulties. In 2023, 23% less newly constructed space (approximately 5.03 million m^2) was completed than in the previous year. The focal points were in the logistics region Rhein-Ruhr (320,000 m^2 of newly constructed space), Rhein-Main/Frankfurt (280,000 m^2) and A4 Thuringia (270,000 m^2), followed by the regions of Hamburg and Berlin (both just over 200,000 m^2). For 2024 stagnation in new construction of logistics space is to be expected in view of the project pipelines.

Hotel properties

The **hotel properties** market continues to recover – particularly tourist demand is again on the increase. In view of increasing operating costs and the persistent staff shortage, particularly hotels with little capital, usually family-run ones, continue to struggle, while brand-name hotels with a high profile, sustainable concept and the budget hotel chain sector are increasing their market share.

The **number of overnight** stays further recovered in 2023 to reach approximately 485 million (2022: 455 million). It looks like the pre-corona level of 2019 may be reached again in 2024. Despite increasing demand, hotel capacity utilisation in many cities is, however, still significantly below the level of 2019, which is attributable to both the increased supply and a change in business travel behaviour (virtual meetings, the economic situation).

On the **investment market** there are trends towards recovery. A strong finish in the fourth quarter, accounting for approximately two thirds of annual revenues, brought the transaction volume up to 1.4 billion euros as of the end of the year. Nevertheless, annual profit was again 25% lower than in the already weak previous year. Foreign institutional investors currently tend to target luxury hotels outside Germany. German city hotels continue to attract comparatively limited interest among buyers. However, this will probably soon change, as the existing hotel segment will increasingly recover due to the decrease in the new construction volume resulting from increased production costs.

The average **room rate** in German hotel chains has now increased to over 100 euros, almost 8% higher than in 2019. In 2020/2021, increasing the room rate and catering prices was only possible in the leisure hotel segment, which saw strong demand in the corona years – in 2022 city hotels followed suit. Due to the higher prices, the German hotel industry achieved significant increases in revenues in the first ten months of 2023, with an increase of 140%. However, due to the still below average occupancy rate revenues per available room (RevPAR) remained approximately 14% below the level of 2019. Unfortunately, the increased rates often fail to cover the concurrent cost increases, which negatively affects operators' profitability.

As regards the **prospects** for the hotel properties market, the budget hotel sector will increase its market shares, above all through takeovers. The volume of new construction is falling. The boundary between commercial and residential concepts is blurring, among other things due to serviced apartments, which are aimed at self-catering travellers looking for accommodation for a few days or weeks. For both investors and users, compliance with ESG standards is now a key selection criterion.

3. Retail property

In 2023, **retail** generated revenues in the amount of 649.9 billion euros, a nominal increase of 3.0% relative to 2022. However, adjustment for inflation results in a real decrease of 4.0%. Online retail revenues decreased more sharply than expected relative to previous year, with a forecast (nominal) decrease for the end of 2023 of over 10%. By contrast, the stationary retail sector generated a nominal increase of 3.5% (real: -4.0%). Consumer reticence was recently also apparent due to the subdued results for Christmas 2023 in the inner cities: Revenues stagnated, and although footfall rates further stabilised, they were unable to match the pre-corona period.

The **consumer climate** was very bleak at the beginning of 2023, with an index value of -37.6 points, and stabilised at the end of the year at a very low level of -25.1. Sharply increased food and energy prices, without any prospect of improvement, are placing a burden on households in addition to the difficult geopolitical and economic situation. A positive impetus for consumer sentiment may result from an increase in real wages in 2024.

The **investment market** for retail properties is affected by increased financing costs and comparatively more attractive yields for investment alternatives. With a transaction volume of 5.4 billion euros, 2023 saw the lowest revenues since the financial crisis in 2009 (3.3 billion euros). This represents a decrease of 53% relative to the ten-year average for the years 2013 to 2022 (11.4 billion euros). Compared to the previous year (9.4 billion euros) the decrease amounts to 43%. Investors focused on prime locations as well as local supply centres and retail parks. Investments were primarily made in supermarkets, cash & carry, DIY and furniture centres, usually between 10 and 40 million euros per individual transaction. In the course of the year the transaction volume is likely to again gain momentum.

Yields (net initial yields, prime) further increased in 2023 across all property types by 0.4 to 1.0 percentage points. In the case of 1a retail properties in the Class A cities, yields most recently stood at 4.8% (2022: 3.9%). For shopping centres in Class A cities, yields stood at 5.9% (5.1%). In Class B cities, they increased to 7.2% (6.5%). A figure of 6.5% (5.75%) was recorded for retail warehouses (non-food) and 5.75% (4.75%) for DIY stores. Retail parks (5.0%, 2022: 4.3%), supermarkets and hypermarkets (all 4.7%, 2022: 4.3%) are still considered comparatively safe investments among retail properties.

Current **developments** in the market for retail properties primarily concern inner-city locations. The increasing number of insolvencies in retail and particularly the fact that the Galeria department store chain is once again in insolvency are a source of uncertainty. Fashion retailers are increasingly disappearing; besides food service industry providers, outlets and discounters are multiplying due to consumers' increasing price sensitivity. Retail space may become further compacted. Large-area department stores are increasingly confronted with the question of subsequent use. While mixed-use concepts are demanding for cities in terms of planning and implementation, they provide a positive long-term impetus for enlivening inner cities.

The top seven retail properties markets

With 3.76 million inhabitants **Berlin** is the most populous city but is in last place among the seven Class A cities when it comes to purchasing power, with an index value of 94.9 or 26,420 euros per capita and year. Retail prime rents increased in 2023 for retail premises between 80 and 120 m² to between 330 and 370 euros/m²/month (2022: 320 to 360 euros); prime rents for spaces between 300 and 500 m² remained unchanged at 120 to 150 euros/m². For both size categories no significant changes in rent levels are expected for 2024.

In **Hamburg** the per capita purchasing power of the 1.89 million inhabitants remains above average, with an index value of 106.5. Rents for smaller shop spaces have remained unchanged compared to 2022, with prime rent of 270-310 euros/m^2, while for larger spaces of 300-500 m^2 they have slightly decreased (110-140 euros/m^2). In the Hanseatic city too, no significant changes in rent levels are forecast for 2024. Hamburg benefited in 2023 once again from numerous store openings by international brands.

Purchasing power in **Munich** is still the highest out of all the large retail locations at 128.8, as are the prime rents demanded for retail space, which remained stable in 2023 at 340-380 euros/m^2 for smaller spaces, while for larger ones opportunities to enter the sector were priced slightly lower at 180-210 euros/m^2 than in the previous year (190-210 euros/m^2). The price trend for small spaces is constant, while the trend for larger ones is falling slightly. Store openings were concentrated in the fashion and luxury segment.

In **Cologne** the index value for per capita purchasing power remains slightly over the national average at 104.5. Prime rents have remained unchanged. The price range for small retail premises has widened slightly relative to 2022 (200-220 euros/m^2), standing at 190-230 euros/m^2, as in the case of larger spaces, for which the current asking price is 90-120 euros/m^2 (2022: 100-110 euros/m^2). With regard to further the development of rental rates no significant changes are expected.

In **Frankfurt am Main** purchasing power remains above average at 109.2. Here too, rents for retail space have remained unchanged. For spaces of 80-120 m^2 the price range is 280-320 euros/m^2, with slightly higher rates demanded at the lower end of the range and slightly lower ones at the upper end relative to 2022 (290-310 euros). Larger spaces of 300-500 m^2 (130-160 euros/m^2, 2022: 140-160 euros/m^2) offer slightly lower cost opportunities to gain a foothold in the sector at the lower end of the range of rental rates. There will be no significant changes here in 2024. Major store openings occurred in the top shopping locations in the areas of fashion and cosmetics.

With an index value of 109.5, **Stuttgart** recorded a slight relative decline in purchasing power (2022: 110.4). Rents for retail space increased slightly relative to 2022. For small spaces monthly rent amounts to 140-180 euros/m^2 (2022: 130-150 euros/m^2) and for larger spaces the price range has widened to 70-100 euros/m^2 (2022: 70-80 euros/m^2). For 2024 stable rents are forecast for spaces of all sizes in Stuttgart too.

In **Düsseldorf** purchasing power remains significantly above the national average at 114.9. The rental price range for small retail premises grew to 280-320 euros/m^2 (2022: 300-310 euros/m^2). For larger spaces, somewhat lower price options are once again available, with a range of 150-180 euros/m^2 (2022: 170-180 euros/m^2). The high level of rental rates for smaller spaces is likely to continue to remain stable, while falling rents are forecast for larger spaces.

4. Social and healthcare property

The demand for **social and healthcare properties** will continue to increase due to the demographic change. The number of the households with elderly people is increasing significantly, as well as the number of persons in need of care. This development is still accompanied by an inadequate supply of healthcare and care properties. The main causes for this are the challenging environment for new construction, political uncertainties and the continuing staff shortage in the healthcare and nursing sector.

On the **investment market** the transaction volume for healthcare properties once again fell sharply. The difficult overall financial conditions are leading to reticence among project developers and investors. Transactions were often associated with insolvency-related sales. In 2023 the volume reached approximately 1 billion euros (2022: approx. 2.3 billion euros). Of that, 826 million euros (2022: 1.7 billion euros) were attributable to nursing and retirement homes and assisted living and 194 million euros (2022: 638 million euros) to medical care facilities. For comparison: The highest transaction volume achieved so far (in 2020) amounted to 3.16 billion euros.

In 2023 **yields** (prime yields) continued the trend reversal that started in 2022, increasing from 4.3% to 5.1%. In the area of service living for the elderly too, prime yields increased significantly, from 3.25% to 3.5% in the previous year to 4.5% in 2023.

New construction is essential to cover increasing demand. The worsening general conditions are likely to further increase the supply gap in the near future. There is a particularly pressing need for action in the West German states and city states. There the occupancy rate for nursing homes already stands at 80% to 95%, and the number of persons in need of care is set to increase by 30% to 55% by 2050. From January to October 2023 only 71 new nursing homes opened (2022: >100), while in the same period 49 homes shut down. At least 216 further nursing homes are currently under construction.

The demand for **barrier-free apartments** continues to rise due to the increasing shift of care to the domestic sphere. In 2022, 7.4% of households in Germany were deemed to suffer from restricted mobility. Demand for reduced-barrier housing units already stood at approximately 3 million apartments in 2022 and could not be covered by the existing stock (1.0 to 1.2 million housing units). In all federal states except Brandenburg the supply rate amounts to less than 50%. There is also a distribution problem: Many barrier-free apartments are inhabited by people without any mobility impairments.

5. Residential real estate

In the area of residential real estate **new construction** is in crisis. The number of completions remained below the threshold of 300,000 in 2022, at 295,300 housing units. For 2023 it should be assumed that the number of building permits will amount to 270,000 – a 30% decrease relative to the peak of the past construction cycle. The crisis is deeper than so far indicated by the building completion and building permit figures. Housing construction is still drawing on construction projects commenced before the interest rate turnaround. In view of the fact that the number of permits issued has decreased by around a quarter and taking into account construction periods, the number of completions is expected to fall to as little as 150,000 per annum. With the current levels of interest rates, building land prices, construction costs and rents, new construction of apartments is not economical. Cost-covering rent rates are far removed from rents for new-build properties.

The **vacancy rate** for market-active apartments (apartments which can be occupied immediately or at short notice) has decreased to around 550,000 apartments due to the considerable influx in 2022. This corresponds to a vacancy rate of 2.5% (2021: 2.8%). The phase of increasing vacancy rates (2019-2020) in which the supply of apartments grew faster than demand has therefore ended after only two years, or has at least been interrupted for the time being. In 2023, the apartment vacancy rate is likely to have stagnated in view of the more subdued development of demand and the still available new apartments.

Rents for apartments (quoted rents, hedonic, existing property only) further increased in 2023 by 4.8% (2022: +5.6%) and by the end of the fourth quarter reached an average of 9.43 euros/m^2/month (2022: 9.00 euros/m^2). The sharpest rent increase was noted in the independent cities in the western states at +5.7% to 11.11 euros/m^2. In the eastern rural districts rents increased by +4.8% (6.95 euros/m^2), the same rate of growth as the national average. Rents in the independent cities in the east (excluding Berlin) and in the rural districts in the western federal states increased somewhat less sharply, by +4.4% (7.96 euros/m^2) and +4.2% (9.16 euros/m^2), respectively.

Selling prices for condominiums (quoted prices, hedonic, existing property) decreased in Germany in 2023 by an average of 6.7% to approximately 3,100 euros/m^2. The largest selling price decreases were noted in the rural districts of the eastern states (-7.3%, 1,900 euros/m^2), followed by the independent cities in the west (-6.9%, 3,900 euros/m^2). Prices in the western rural districts decreased similarly sharply (-6.6%, 2,900 euros/m^2). The smallest decreases were noted in the East German independent cities (-4.4%, 1,900 euros/m^2).

The housing markets in the seven Class A cities

Rents (quoted rents, existing property) increased in all seven Class A cities. Munich remains the most expensive city, with a monthly rent of 18.78 euros/m^2 (+4.6% compared to the fourth quarter of the previous year). Frankfurt follows some way behind at 14.03 euros/m^2 (+3.5%), then Stuttgart at 13.84 euros/m^2 (+3.4%). Cologne (12.50 euros/m^2, +3.3%), Berlin (12.42 euros/m^2, +13.7%), Hamburg (12.20 euros/m^2, +4.4%) and Düsseldorf (12.07 euros/m^2, +5.1%) offer the lowest price rented apartments on average among the Class A cities.

Selling prices for condominiums decreased in 2023 more sharply than the national average (-6.7%) in five of the seven Class A cities. While Frankfurt (-3.4%, 5,355 euros/m^2) and Berlin (-5.5%, 4,805 euros/m^2) noted lower decreases, selling prices decreased disproportionately sharply in Hamburg (-8.7%, 5,128 euros/m^2) and even more so in Stuttgart (-9.3%, 4,527 euros/m^2), Düsseldorf (-9.4%, 4,150 euros/m^2) and Munich (-9.7%, 7,804 euros/m^2).

New construction of apartments has stagnated in recent years in all the Class A cities. For 2022, the completion statistics show decreases in Cologne, Frankfurt, Düsseldorf and Stuttgart. Hamburg and above all Berlin are resisting the negative trend, and Munich also managed to beat it. However, in those cities too the number of building permits issued has been falling for years, which will soon be manifest in the form of a further decrease in the number of completions.

The **vacancy rate** remains extraordinarily low in all the Class A cities compared to the national average (2.5%). In 2022 too, all cities with market-active vacancy rates of between 0.2% (Frankfurt) and 1.2% (Düsseldorf) had a woefully inadequate fluctuation reserve (Berlin and Munich: 0.3%).

6. The future of inner city development

The challenges with regard to the transformation of **inner cities** continue, as the financial framework conditions for reconstruction processes have further worsened. Increasing construction costs and construction loan interest coupled with falling rent revenues and consumer reticence are putting inner city traders and project developers under pressure. The disappearance of important anchor utilisations, above all due to the closure of large department stores and branches of major retail chains, requires that the magnetic draw of those utilisations be compensated for through the creation of new attractions in city centres.

More **usage diversity** ensures greater resilience to crises. The focus is on educational institutions, administrative buildings, social and non-profit institutions and also cultural and leisure facilities, as well as residential areas, as driving forces behind that process. This approach is now being adopted by more and more investors and project developers, with so-called mixed-use properties. Usage diversity also requires a greater degree of communication, cooperation and mutual consideration.

The creation of a sustainable mix of utilisations is a **long-term process** – the transformation process for inner cities must therefore be secured in the long term and self-supporting structures must be established. The emergency programmes of the federal government and states have thus far made a good contribution to the development of a strategy and the creation of networking opportunities. Urban development funding should build on this, be used to stabilise cooperation structures and, through co-financing – for example in the form of neighbourhood funds – support cooperative project implementation. The aim must be to ensure that self-supporting structures are created and that public authorities are involved on an equal footing with the property sector.

New legal frameworks are also required for the necessary transformation processes in inner cities. Thus, the digitalisation of planning and permit processes may be helpful, as well as the creation of scope for action for repurposing among the individual usage classes (urban district, residential uses in the central zone). It is important to encourage and enable municipalities to adopt a solution-oriented approach to this task. Otherwise, many large retail spaces will have great difficulty finding new uses.

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About the publisher

The **German Property Federation (ZIA)** is the leading umbrella association for the property sector. With its registered office in Berlin and a European office in Brussels, it speaks through its more than 400 members, including 33 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 670 billion euros in 2022, approximately 20% of Germany's gross value added and therefore more than the automotive sector, for example. The sector is aware of its role in climate protection and therefore reduced its CO2 emissions from 210 to 112 million tons per annum between 1990 and 2022.

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

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