

44 Years of bulwiengesa Property Market Index

Real Estate Prices Have been Rising for the Past 15 Years – Fastest Growth Registered for Development Land

- **At 4.7 percent, real estate price growth has somewhat slowed in 2019**
- **Office market positively booming**
- **Land prices for residential and commercial development keep surging**
- **Retail sector: down-trend accelerating**

Berlin/Munich, 13 February 2020 – The bulwiengesa Property Market Index 2020 is the 44th edition of this annual snapshot of the property price performance in Germany. The methodology and the long time series over which the data are polled make the index an important yardstick for sustainable decision-making in the real estate market, in urban development and in monetary politics. Its data are used, inter alia, in the price indices released by Deutsche Bundesbank.

The 2109 findings at a glance:

- Comprehensive index (across segments): 4.7 percent
- “Residential” sub-index: 5.5 percent
- “Commercial” sub-index: 3.2 percent

With another year of growth concluded, the bulwiengesa Property Market Index now presents 15 years of uninterrupted upward movement. That being said, the growth appears to have peaked.

Jan Finke, project manager for the Property Market Index at bulwiengesa, commented: *“The bulwiengesa Property Market Index 2020 has ceased to maintain the growth rates of the past three years. But there is no reason to speak of an actual downturn.”*

Residential: Buying Is More Expensive Now than Renting

Prices on the housing market have kept surging at +5.5 percent (previous year: +7.0 percent). The leading price drivers are available-for-sale properties, no matter whether you take land prices for single-family detached homes (+7.3 percent), prices for attached houses or prices for newly-built condominiums (+6.8 percent each). By contrast, rental growth is relatively moderate, both for flats in new (+3.6 percent) and in existing buildings (+2.5 percent).

At the moment, the German housing market is dominated by two main causes for the short supply: a shortage of land and a construction capacity crunch. The Federal Statistical Office (Destatis) reported a modest climb in the number of planning consents, while the building industry indicated an increase in orders on hand for 2020. This would seem to imply a nominal increase in the number of completions. However, a current bottleneck in construction capacities has created a growing construction backlog over the past years.

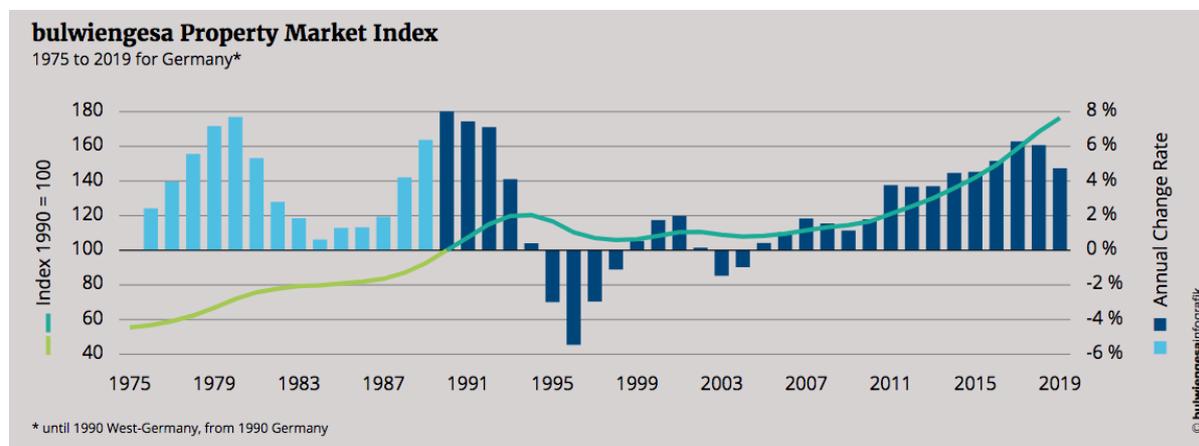
Andreas Schulten, Generally Authorised Agent of bulwiengesa, said: *“There is still no sign of a rapid expansion of the housing supply through new-build construction that would be typical of an emergent bubble. Interestingly, the expansion of the housing supply is one of the stated political objectives. But even if the building activity was massively expanded – the persistently low level of interest would prevent widespread overheating.”*

Commercial: No End to the Office Boom

The market for commercial real estate remains indifferent. While retail rents are under pressure, commercial-zoned land and office accommodation are very much in demand. Germany’s office market has registered high take-up levels for several years now. Since office construction has failed to increase in proportion, vacancies are down to half of what they were in 2013.

Office rents have surged since 2010 – by 6.0 percent in 2019. Demand for office space in A- and B-Class markets is extremely high. Even some Class C markets—and indeed Class D markets—have benefited from the office market boom. Generally speaking, however, the office sector is a phenomenon limited to the economic centres.

Project manager Jan Finke commented: *“Germany’s economic motor has started sputtering a bit, but the domestic economy remains robust. While rents in the major cities are driven by scarcity (both in land and assets), rents in small towns are going up mainly because of construction cost hikes and elevated fit-out standards.”*



Another main driver of the robust commercial Property Market Index is the growth in land prices at a rate of 6.8 percent. Since 2014, growth rates have consistently ranged in a bandwidth of 4.0 percent to 8.7 percent.

Plots of Land: Price Hikes Hampering New Projects

Taking a look at land prices both for residential and commercial properties is in any case extremely important in the urban planning and property development contexts. No other type out of the total of nine index-relevant categories registered a price growth rate as steep as the one for plots. The factor is currently one of the key obstacles standing in the way of new quarters and new projects. Since 1990, prices for plots with planning consents for de-

tached homes have increased by 137 percent in German cities, and thus more than doubled. The price growth for commercial-zoned land, while not quite as rapid, averaged a brisk 68 percent over the same period of time. In either sector, residential and commercial, land prices registered the steepest growth.

Andreas Schulten: *“Sadly, just trading plots of land continues to be more lucrative and less risky in Germany’s cities than their development with flats or offices.”*

Accelerated Downtrend in Retail Real Estate

A closer look at the retail sector shows: The downtrend that began the previous year has accelerated. The -0.3 percent softening of average retail rents in prime high-street pitches turned into a substantial drop of -1.4 percent. Rental growth in half of the analysed locations has now slipped into the negative range.

Ralf-Peter Koschny, the CEO of bulwiengesa and expert for the retail sector: *“The uncertainties regarding the expansion policies of many retail multiples and the growing share of e-commerce have an enormous impact on the price trend. Especially in smaller cities of underperforming regions it will be up to the body politic to stabilise the footfall in central high-street locations. On the bright side, district locations which are primarily defined by non-discretionary demand remain interesting to investors.”*

Outlook

The manufacturing industry is struggling and has to some extent put a damper on the 2019 business cycle. But despite the modest drop in employment figures in the secondary sector caused by it, the German labour market remains stable. Brisk income growth, tax relief and rising standard wages will probably suffice to offset potential property price hikes for home buyers. It looks as if mortgage interest were likely to bottom out in 2020, which will leave little margin for further price growth on the real estate market.

Although one cannot rule out price spikes in some places at this time, major market adjustments continue to be unlikely due to the stable labour market, a persistently sluggish expansion of the real estate supply, most notably in the cities, and the slim likelihood of rapid interest rate hikes going forward.



About the bulwiengesa Property Market Index:

The bulwiengesa Property Market Index has analysed the performance of Germany's real estate market since 1975, initially based on 50 West-German cities, and using an expanded basis of 125 cities across the reunited Germany since 1990. The findings of the bulwiengesa Property Market Index are based on the extensive data collection of bulwiengesa and on the compilation of location and market analyses in line with its independent surveying practice. The database is supplemented annually with pinpoint empirical surveys, local polls and newspaper analyses, and is published in the RIWIS database. The bulwiengesa Property Market Index is calculated and updated annually on the basis of these data. The nine use-specific sub-markets are equally weighted when calculating the index. The comprehensive index is supplemented with sub-indices for the residential and the commercial property markets.

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About bulwiengesa:

bulwiengesa is one of the major independent analytics firms for the real estate industry in Continental Europe. For more than 30 years, bulwiengesa has supported its partners and clients in real estate industry issues by providing location and market analyses, detailed data services, strategic consultancy and bespoke expert opinions, among other deliverables. The company's RIWIS online information system delivers richly informative microdata, time series, forecasts and transaction data. The data of bulwiengesa are used by Deutsche Bundesbank for the European Central Bank (ECB), the Bank for International Settlements (BIS) and the OECD, among many other clients.

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