MARKET SURVEY

# bulwiengesa Property Market Index 1975 - 2017

## Commercial and Residential – Rents and Prices – 125 German Cities – since 1975

Owner-Occupied Apartments • Terraced Houses • Residential Rents • Building Land • Retail Rents • Office Rents

**» Boom Cycle Continues: bulwiengesa Real Estate Index Gains +5.7 % across Segments in 2017**

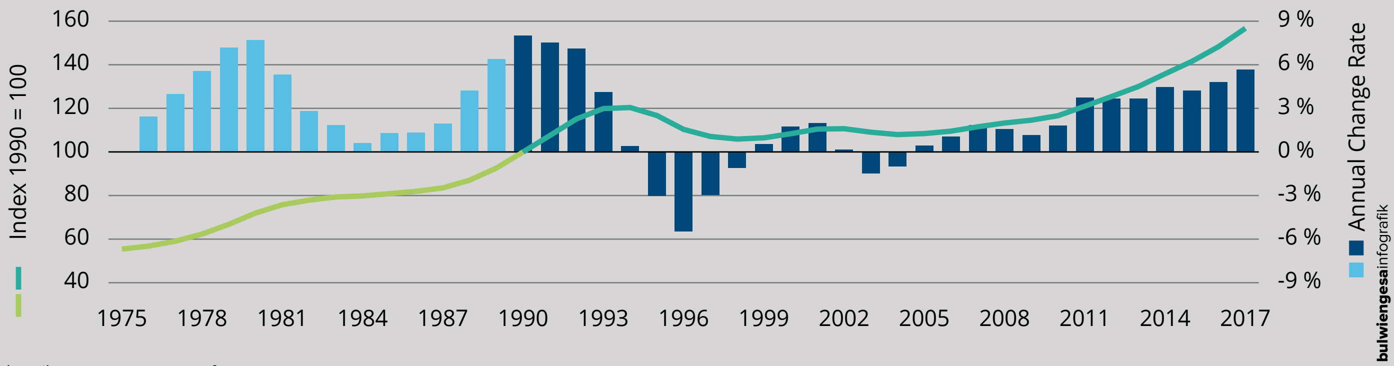
Throughout 2017, Germany's real estate market was defined by low interest rates, strong liquidity positions on the player side, and a shortage in zoned land. As a result, the bulwiengesa Real Estate Index gained for the 13th time in as many years, and registered its steepest growth since 1990-1992. The 5-year average improved to a striking annual rate of +4.6 %.
The run on the housing markets in the country's metro regions is driven by incoming migration, while the economic indices present a very robust picture, and the labour market is booming. These parameters bolster the keen demand for housing and places of business, and are pushing real estate as a sought commodity on the investment market.

Naturally, the growth rate experienced during a boom cycle differs from one real estate segment and one region to the other. So the natural question is: which asset classes are driving the current market trend, and which regions or city types gain most?

- The spread between residential and commercial real estate index (5.5 percentage points) is at its highest since 1975.
- While the price growth of residential real estate extends down to the level of the Class D cities nationwide, prices for commercial real estate are going up in conurbations only.
- The growth rate of the German Property Index is significantly faster than the inflation rate.

**bulwiengesa Property Market Index**

1975 to 2017 for Germany*




* until 1990 West-Germany, from 1990 Germany

## » Housing Market Outperforms the Commercial Market

Growth rates for virtually all variables experienced another year-on-year increase. The Residential sub-index rose by +7.6 % (previous year: +6.3 %) to a new high-water mark, when disregarding the years 1990-1992 in the immediate wake of Germany's reunification. A 5-year average of +5.8 % p. a. represents an amazing pace.
The biggest price drivers are newly-build apartments (+9.6 %). Prices for terraced houses (+7.7 %) and sites for family homes (+7.3 %) are rising faster than new-build rents (+5.8 %) and rents for existing apartments (+7.1 %), this highlights the sustained pressure in the „buying" segment.

## » Residential Completions Subject to Brisk Growth

An analysis of the official completion rates between 2010 and 2016 will suggest as much. While the number of completed apartments rose by +74 % to 280,000 units in 2016, condominium completions actually increased at a rate of +120 %. Private builders continue to represent the largest group (about 140,000 residential units in 2016). However, their number has increased by only +46 % since 2010, While businesses (housing companies, investment funds, et al.) expanded their completion rates by +93 % to 115,000 residential units. The run on the real estate market is definitively driven by the increased interest among institutional investors.

## » Price Drivers on the Housing Market

Prices in the housing market are spiralling higher and higher. Which are the potential price drivers? As to the **costs of construction**, the construction cost index of the Federal Statistical Office manifested a price hike by 10.4 % (2010-2016), slightly increased to the consumer price index (+7,4 %). The material costs went up but marginally, whereas the significant wage increase of 2015/2016 represents the defining factor.

Major Impacts cause the steadily tightening **energy saving ordinances (EnEV)**, resulting in a shift of the costs from shell-and-core construction to fit-out costs (esp. heating, ventilation and air extraction, sanitary), according to Arbeitsgemeinschaft für zeitgemäßes Bauen (Institut for Sustainable Constructions). So, comparing EnEV 2014 to EnEV 2016, the building works costs for multi-storey residential buildings rose by +7 % to 1,432 euros/sqm and by +17.5 % to 1,567 euros/sqm for a building of the KfW 55 standard.

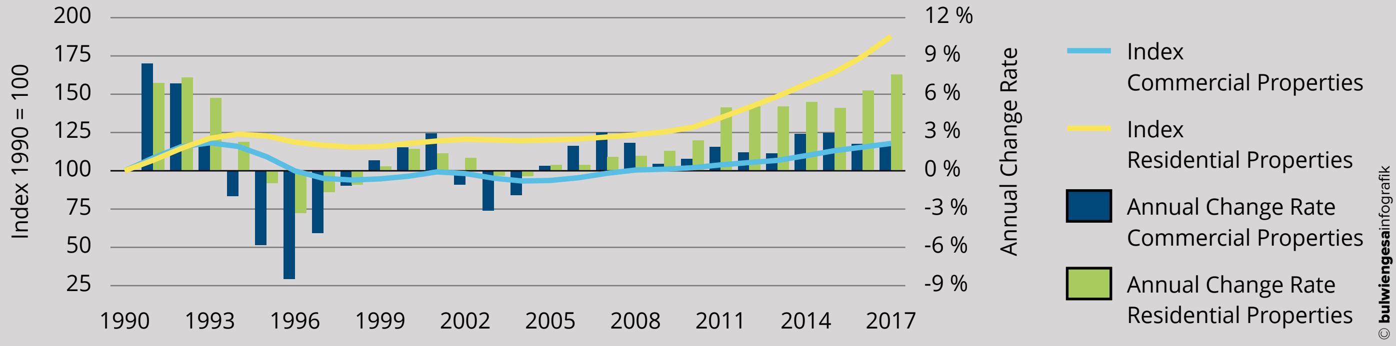
The biggest driver remains the partly strained **property market**, especially in urban agglomeration areas. The situation is illustrated by the annual growth rate for plots zoned for multi-family dwellings in medium locations, which has been in the double-digit range since 2010 in cities like Munich, Hamburg, and Hanover or regional centres like Münster, Ingolstadt and Regensburg. But the situation varies from one region to the next, as some cities in North Rhine-Westphalia and East Germany take exception to the trend.

## » Commercial Real Estate Index Maintains Prior-Year Growth Rate of +2.1 %

The Commercial Real Estate index breaks down into a struggling **retail market** and an expanding office and property market. Like last year, the sub-average rental growth in prime high streets (+0.5 %) is the main factor impacting performance. Secondary locations showed a stronger rental growth (+ 1.8 %). Given the stable cash flow, the planned expansions of various labels in prominent high-street locations, and the growing propensity to consume, the German retail sector is actually well positioned. Its long-term viability will hinge on the evolving interaction between in-store and online retailing.

The **office market**, while not quite able to match the prior-year rent growth at +2.1 %, did approximate the 5-year mean of +2.3 % annually. The key drivers of rent growths on the demand side remain office employment figures, which generated the biggest take-up since the start of the survey in 1990. On the supply side, a serious reduction of floor space as property is converted or razed has combined with the slow pace of construction to create bottlenecks.

**Index for Commercial and Residential Properties**
1990 to 2017



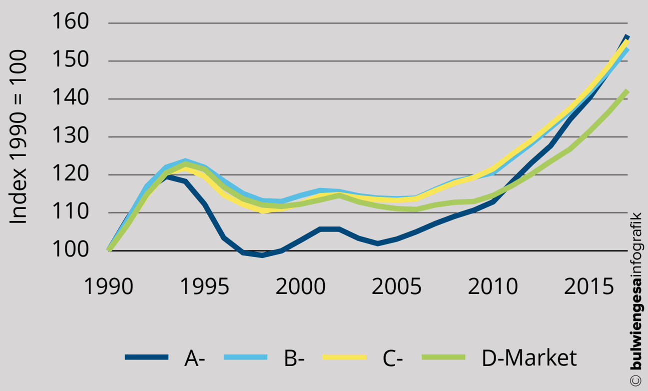
Similar to last year, **land prices** (+3.8 %) are the driving force for the commercial real estate sub-index. However, the growth markets – only one in three – show a dispersed distribution pattern. While demand for large-scale logistics hubs used to be greatest along the transportation arteries, these will be supplemented by locations in the core cities, where „same-day delivery“ models permit production, distribution and consumption to interact closely.

### » ABCD Cities Show a Clear Winner

In the overall index, Class A cities showed the highest score among the different types of cities at +6.5 %, and thus retained the lead they have had in the overall index since 1990 (156.8 points). Growth in the B-, C- and D-class cities maintained a relatively uniform and high level of +4.1 to +4.7 %. The poorest performance, comparatively speaking, was registered in Class D cities with a score of 142.3 points.

**Property Market Index by Market Type**

1990 to 2017




A look at the housing market variables shows the dominance of the Class A cities in four out of five counts. The only category where D cities topped the list for the third consecutive year with the steepest growth rate (+7.5 %) is new-build rents, which documents the nationwide attractiveness of the residential segment. The strongest performance was achieved by new-build prices for condominiums, ranging in a bracket of +7.6 % (B cities) and a sensational 10.8 % in A cities). But even the price trend for terraced houses and properties in the “Big Seven” cities came close to the mark of +10.0 %, more than twice the growth rate reported from D cities.

A drilldown of the commercial property variables according to the ABCD classification reveals a much more homogeneous spectrum of trends. The retail sector, while seeing faster rates of growth in secondary locations in A- and B-Class cities (+2.5 and +2.0 %, respectively), proved unable to clear the mark of +1% growth in the high-street pitches of any city type. In contrast to previous years, the office market presented a surprisingly balanced picture as it straddled a band width of +1.9 % (Class D cities) to +2.6 % (Class C cities). The development shows how much secondary locations have gained in attractiveness. In fact, the market for commercial zoned land is the only segment where Class A cities (+4.9 %) remain clearly ahead of other city types (+1.8 to +2.6 %).

**Rank of Average Change Rates**

since 1975 – all Segments

| Rank | City | Ø p. a. | Rank | City | Ø p. a. |
|---|---|---|---|---|---|
| 1 | Munich | 3.9 % | 40 | Essen | 2.2 % |
| 2 | Regensburg | 3.5 % | 41 | Bochum | 2.2 % |
| 3 | Rosenheim | 3.3 % | 42 | Bonn | 2.2 % |
| 4 | Wiesbaden | 3.2 % | 43 | Bremen | 2.0 % |
| 5 | Frankfurt (Main) | 3.1 % | 44 | Krefeld | 2.0 % |
| 6 | Augsburg | 3.0 % | 45 | Bielefeld | 2.0 % |
| 7 | Mainz | 3.0 % | 46 | Duisburg | 2.0 % |
| 8 | Heidelberg | 3.0 % | 47 | Saarbrücken | 1.9 % |
| 9 | Stuttgart | 3.0 % | 48 | Siegen | 1.8 % |
| 10 | Trier | 3.0 % | 49 | Hildesheim | 1.8 % |

Note: only cities in West-Germany

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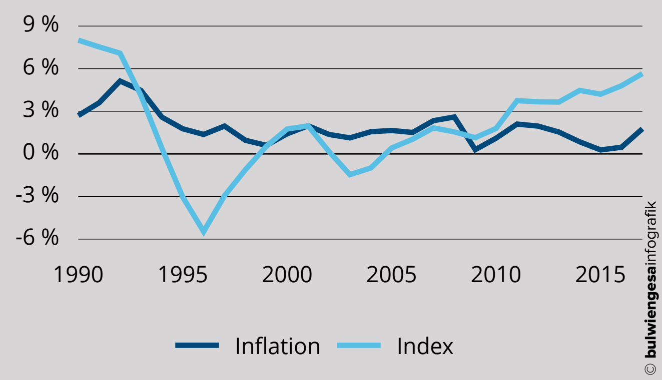
### » The Brisk Growth Rates of the Real Estate Index Outpace the Inflation Rate

Since 2014, the spread between the Property Market Index and the inflation rate has moved within an evidently positive window of 3.6 to 4.3 % (3.9 % in 2017). This means: In the present market environment, and unlike in the mid-1990s, real estate is an effective safeguard against inflation, the effect being most notable on the housing market whereas the margin in the commercial real estate is only 0.3 percentage points. An inflation rate permanently dropping back below +2.0 % and revenues in the commercial real estate market will more or less cancel each other out. With the ECB’s decisions pending, it is hard to suggest a long-term outlook.

**Inflation and Property Market Index**

Change Rates 1990 to 2017



## Rents and Prices for Residential and Commercial Property in Germany

| | WEST-GERMANY incl. Berlin (West) | | | | GERMANY | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Value | | Change (nominal) | | Value | | Change (nominal) | | |
| | 1975 | 1990 | 1975 - 1990 | | 1990 | 2017 | 1990 - 2017 | | 2016 - 2017 |
| (Euros/sqm) | | | total | p. a. | | | total | p. a. | |
| O-o* Apartments | 1,313 | 2,053 | 56.3 % | 3.0 % | 2,026 | 4,014 | 98.1 % | 2.6 % | 9.6 % |
| Terraced houses (Euros) | 128,310 | 212,295 | 65.5 % | 3.4 % | 206,087 | 373,754 | 81.4 % | 2.2 % | 7.7 % |
| Rents (new) | 4.12 | 6.81 | 65.3 % | 3.4 % | 6.79 | 11.23 | 65.4 % | 1.9 % | 5.8 % |
| Rents (existing) | 2.54 | 5.17 | 103.5 % | 4.9 % | 4.49 | 9.15 | 103.8 % | 2.7 % | 7.1 % |
| Sites for family homes | 106 | 235 | 121.5 % | 5.4 % | 152 | 290 | 90.5 % | 2.4 % | 7.3 % |
| Prime retail rents | 33.80 | 68.74 | 103.4 % | 4.8 % | 55.67 | 78.76 | 41.5 % | 1.3 % | 0.5 % |
| Suburban retail rents | 10.74 | 18.39 | 71.2 % | 3.7 % | 16.47 | 14.36 | -12.8 % | -0.5 % | 1.8 % |
| Prime office rents | 6.21 | 10.99 | 77.0 % | 3.9 % | 12.33 | 12.34 | 0.1 % | 0.0 % | 2.1 % |
| Industrial land | 69 | 123 | 79.3 % | 4.0 % | 106 | 151 | 42.7 % | 1.3 % | 3.8 % |
| **bulwiengesa Property Market Index** | | | **80.3 %** | **4.0 %** | | | **56.7 %** | **1.7 %** | **5.7 %** |
| Residential | | | 79.1 % | 4.0 % | | | 87.8 % | 2.4 % | 7.6 % |
| Commercial | | | 81.9 % | 4.1 % | | | 17.9 % | 0.6 % | 2.1 % |

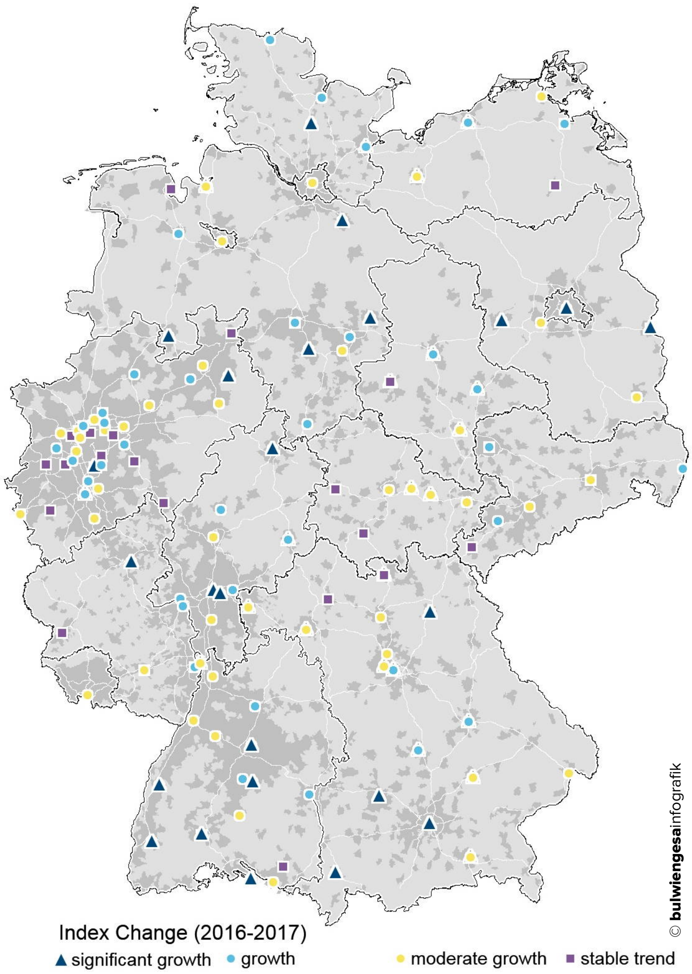


### » Expectations for the future

Early economic indicators point to a favourable trend in the real estate industry that is fuelled by economic growth and continued urbanisation. Clients, skilled workers, tourists and residents need shells as retail venue, workplace, holiday lodgings or residences; and all asset classes in the major urban agglomeration areas benefit from the trend. Meanwhile, the strain is growing in the stress field between keen demand and limited supply at a time of slow building activity. Rising wages, a shortage in skilled labour in the building trade, and a scant supply in zoned land are curbing growth on the core markets.
Since the ECB is expected to begin moving away from its ultra-accommodative monetary policy, and since the government feels a need for further clarification regarding the "rent freeze" rent control measure, there remains a degree of uncertainty in regard to fiscal policy. Nevertheless the price level remains high in 2018 and could increase slightly due to the expected rental growth. However the net initial yields show very little potential for hardening further. But while the threat of market exaggerations remains hypothetical, it could certainly be argued that the competition in prices and resources on the German real estate market is likely to intensify.

### » More Details

Detailed information, data series and evaluations are available separately. If you are interested, please get in touch with us.

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