MARKET SURVEY

bulwiengesa Property Market Index 1975 - 2018

Commercial & Residential – Rents & Prices – 125 German Cities – since 1975

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

» Boom Cycle Continues: 2018 bulwiengesa Property Market Index Gains +5.6 % across Segments

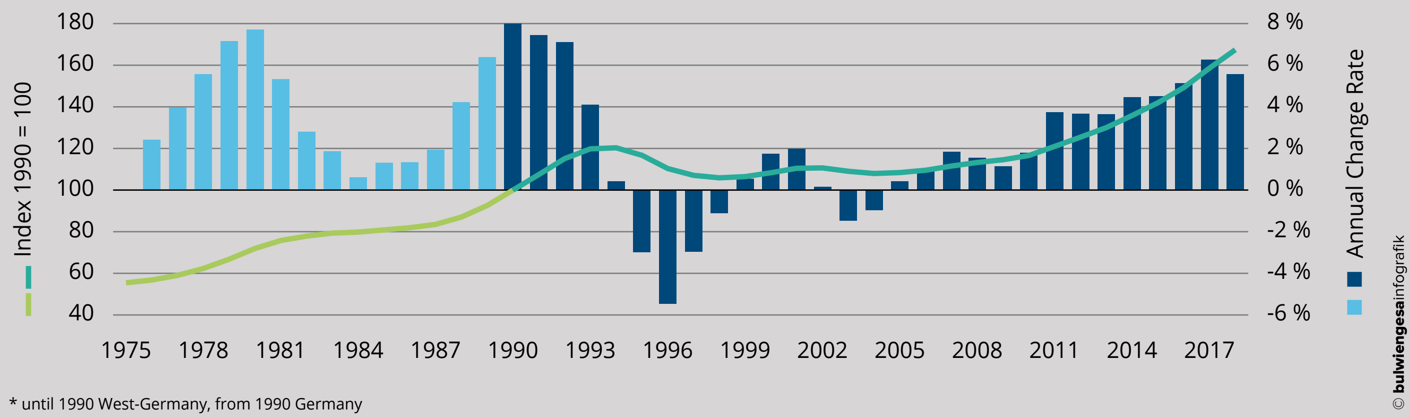
Even though sentiment soured during the fourth quarter: 2018 was a great year for Germany's economy. Unemployment was down while consumer spending was up. Real estate investors, too, remained very active in Germany in 2018. In fact, it was the 14th consecutive year of growth (!) for the bulwiengesa Property Market Index, with the fifth-highest growth rate since 1990. The 5-year average rose to a remarkable annual rate of 5.2 %. Demand for residential and commercial premises remains high. Other price drivers were the tightened statutory requirements in new-build construction and refurbishments, and the – in some places severe – labour shortage in the building industry. That being said, now is the time to keep an eye out for early signs of jitters in the business cycles and to interpret them.

Here are the key insights of the 2018 Property Market Index:

- The spread between the change rates of the residential and commercial property market index has slightly narrowed.
- Retail rents are stagnant, prices for residential and commercial zoned plots are soaring, homeownership is getting more expensive.
- The spread between property market index and the inflation rate is the narrowest it has been in the past five years.

bulwiengesa Property Market Index

1975 to 2018 for Germany*



* until 1990 West-Germany, from 1990 Germany

» Housing Market Experiencing Brisk Growth

The **Residential** sub-index continued to grow rapidly at +6.8 % (previous year: +8.3 %). It is the fifth-fastest growth rate since Germany's reunification in 1990. However, four of the five variables registered slowing rates of increase year on year. The variable for terraced houses was the only one that topped its 2017 score. Overall, the 5-year average climbed to +6.5 % p.a. The leading price drivers are available-for-sale properties: be it terraced houses (+9.2 %), land prices for single-family homes (+8.7 %) or newly-built owner-occupied apartments (+7.6 %), prices are surging across the board. By contrast, rental growth is comparatively moderate, both for flats in new (+4.9 %) and flats in existing buildings (+3.5 %).

» Growth in Planning Consents Presents Mixed Picture

Germany's media and politic body keep pointing out the rising number of planning permits – the latest nationwide figure being 315,200 flats approved (January through November 2018, +0.5 % year on year). But it has long been obvious that the residential completions total cannot keep rising indefinitely, and that the housing policy target of 1.5 million new flats completed by the end of 2021 is at risk. The number of planning permits for single and double-family homes declined last year (-0.5 % and -5.2 %, respectively). So, the growth was generated solely by flats in multi-family homes (+4.5 %). Conversely, the number of permits for halls of residence actually plummeted by 16 %.

» Land Prices, Red Tape and Contractors Working at Capacity are Key Price Drivers

The bulwiengesa Property Market Index shows that plots and properties with higher pro-rata shares of the land, specifically terraced houses, are subject to rapid price growth. The phenomenon is more pronounced in metro regions than in economically less developed cities. The supply in building land falls short of current demand. Zoning new building sites takes time, has to overcome legal obstacles, and is often opposed by local civic action groups critical of new developments („not in my back yard"). Not least, land prices can be subject to price speculation.

Red tape that hampers housing construction in Germany includes regulations governing biodiversity conservation, noise abatement and energy requirements. While they do indicate an advanced and tolerant building culture, they increasingly cause costly delays in the approval process as well.

A more recent phenomenon are tightening bottlenecks in the building industry, such as a short supply in raw materials, depleted human resources or the high capacity utilisation of machinery and equipment. The construction industry is addressing these issues by expanding capacity and intensifying serial and modular housing construction whenever there is planning certainty.

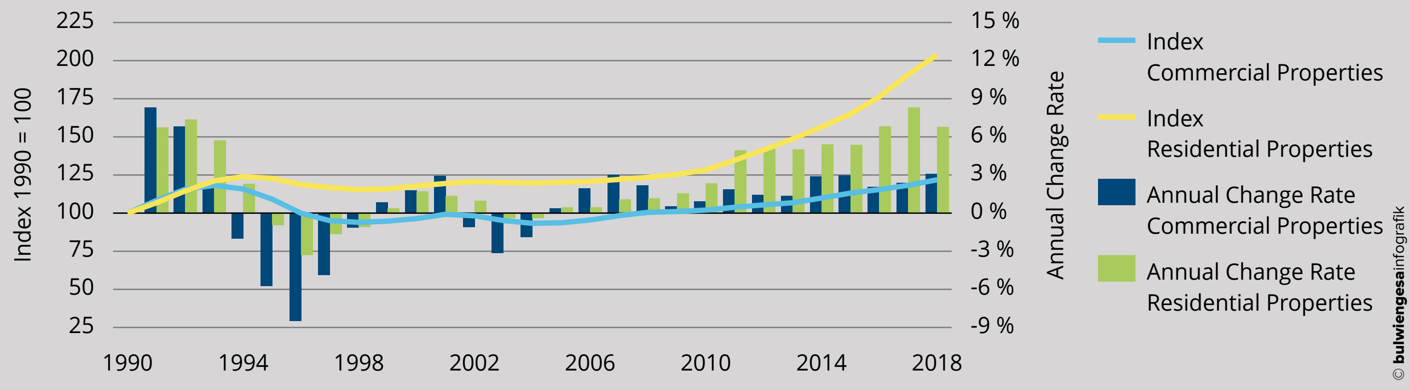
» Commercial Property Market Index Makes Large Gains of +3.1 %

On the commercial real estate market, gain and loss are separated by a narrow margin. Retail rents are behaving sluggishly, on the one hand, whereas office rents and commercial zoned land are subject to brisk growth, on the other hand.

A closer look at the **retail** segment shows: For the first time since 2004, high-street retail rents have softened slightly. A breakdown by city shows that rents in central locations in the majority of the analysed cities are either stagnant or slightly declining. The overall figure of -0.2 % implies that it was the third consecutive year of flatlining rents in the retail sector. There are various reasons to explain this. After years of robust rental growth, multiples particularly in the textile sector seek to downscale their network of branches while also downsizing their retail units. Although retail revenues have been going up for years, the growth is primarily attributable to e-commerce and not to brick-and-mortar retailing.

Index for Commercial and Residential Properties

1990 to 2018



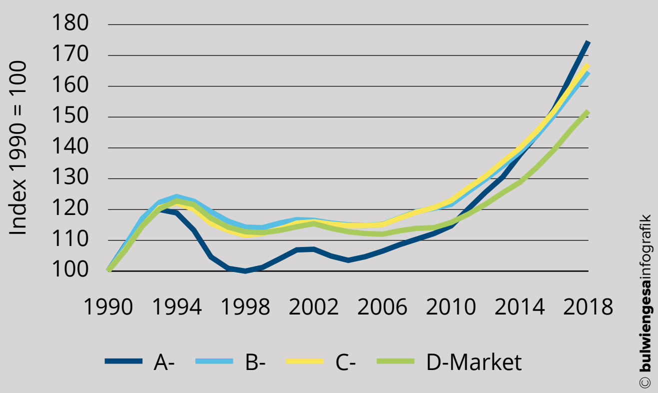
The **office** market shows a different picture. Following unstable phases between 1990 and 2009, office rents have been pushing up fast since 2010, in fact, 2018 registered the highest annual gain since 1990 at +5.6 %. Sound economic figures and employment gains have had a positive impact on the demand side. The take-up is on a permanently high level, and in many office markets, completions have lagged behind the demand for floor space, despite the increased building activity.
The other mainstay of the robust commercial property market index is the growth in **land prices**, the rate again being +5.6 %. Since 2014, growth rates have consistently remained in a fast-growth bracket between +3.9 % and +5.6 %. Both manufacturing and logistics operations are constantly looking for potential new sites.

» ABCD Class Cities 2018: Price Growth across the Board

In the overall index, Class A cities showed the highest score at +6.6 %, and have thus retained their lead in the overall index since 1990 (174.61 points). Growth in the B-, C- and D-class cities maintained a relatively uniform and high level of +4.1 % to +4.6 %. At 151.99 points, the growth was slowest in Class D cities during the reference period.

Property Market Index by Market Type

1990 to 2018



The fastest growth among the **housing market variables** was reported for purchase and land prices involving newly-built owner-occupied apartments in Class A cities (+8.9 %), terraced houses (+11.4 %) and land prices for single-family homes (+10.6 %). When taking all of the city classifications into account, however, even the lowest rate of change for purchase or land variables are rather high at +5.2 % (terraced houses in Class D cities). The rent performance moves within narrower brackets. Interesting to note is that Class D cities registered the highest gains: new-build rents rose by +5.8 % and passing rents by +3.7 %, clearly suggesting that regional centres have become quicker to catch up with urban rent growth. At +2.7 %, passing rents in Class B cities registered the slowest rate of increase.

A comparison of the ABCD cities illustrates the wide spectrum of **commercial development**. While retail rents are slowly declining in high-street locations in cities of every class, secondary retail locations remain stable. The commercial index is topped by office rents in Class A cities with a +8.0 % increase and commercial land (+7.0 %). They have outpaced their equivalents in cities of other classes (office rent: +2.2 % to +3.2 %, commercial land: +3.1 % to +4.5 %).

Rank of Average Change Rates

since 1975 – all Segments

Rank	City	Ø p. a.	Rank	City	Ø p. a.
1	München	4.0 %	40	Bonn	2.2 %
2	Regensburg	3.5 %	41	Bochum	2.2 %
3	Rosenheim	3.4 %	42	Essen	2.2 %
4	Wiesbaden	3.2 %	43	Bremen	2.1 %
5	Frankfurt (Main)	3.2 %	44	Duisburg	2.0 %
6	Augsburg	3.1 %	45	Bielefeld	2.0 %
7	Mainz	3.1 %	46	Krefeld	2.0 %
8	Stuttgart	3.0 %	47	Saarbrücken	2.0 %
9	Heidelberg	3.0 %	48	Siegen	1.9 %
10	Trier	3.0 %	49	Hildesheim	1.9 %

Note: only cities in West-Germany

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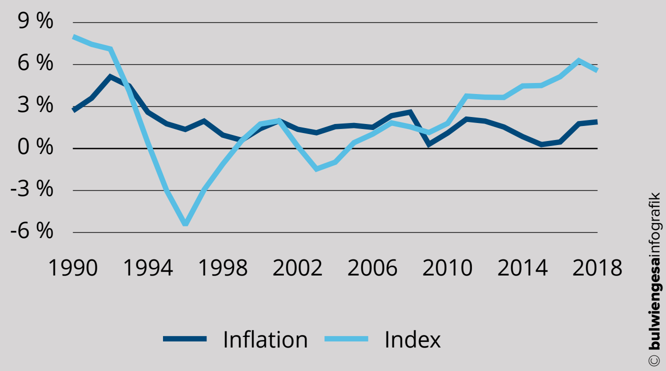
» Inflation and Property Market Index Getting Closer

The difference between property market index and inflation rate (2018: 3.7 %) has returned to the level of 2014 after a wider spread between 2015 and 2017 (4.2 % to 4.7 %). This is explained by an elevated inflation rate of 1.9 % and the slowed growth of the property market index. This means: Real estate qualifies as an inflation safeguard in the current market environment. While it is substantial in the housing market (spread: 4.9 percentage points), the inflation safeguard is precarious in the commercial market (spread: 1.2 percentage points) across types of use due to sluggish revenue growth.

Inflation und Index

Change Rates 1990 to 2018



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	2018	1990 - 2018		2017 - 2018
(Euros/sqm)			total	p. a.			total	p. a.	
O-o* Apartments	1,313	2,053	56.3 %	3.0 %	2,026	4,354	114.9 %	2.8 %	7.6 %
Terraced houses (Euros)	128,310	212,295	65.5 %	3.4 %	206,087	409,751	98.8 %	2.5 %	9.2 %
Rents (new)	4.12	6.81	65.3 %	3.4 %	6.79	11.79	73.6 %	2.0 %	4.9 %
Rents (existing)	2.54	5.17	103.5 %	4.9 %	4.49	9.48	111.1 %	2.7 %	3.5 %
Sites for family homes	106	235	121.5 %	5.4 %	152	336	120.9 %	2.9 %	8.7 %
Prime retail rents	33.80	68.74	103.4 %	4.8 %	55.67	78.67	41.3 %	1.2 %	-0.2 %
Suburban retail rents	10.74	18.39	71.2 %	3.7 %	16.47	14.57	-11.5 %	-0.4 %	1.3 %
City office rents	6.21	10.99	77.0 %	3.9 %	12.33	13.15	6.7 %	0.2 %	5.6 %
Commercial land	69	123	79.3 %	4.0 %	106	160	51.1 %	1.5 %	5.6 %
bulwiengesa Property Market Index			**80.3 %**	**4.0 %**			**67.4 %**	**1.9 %**	**5.6 %**
		Residential	79.1 %	4.0 %			103.9 %	2.6 %	6.8 %
* Owner-occupied Apartments		Commercial	81.9 %	4.1 %			21.9 %	0.7 %	3.1 %

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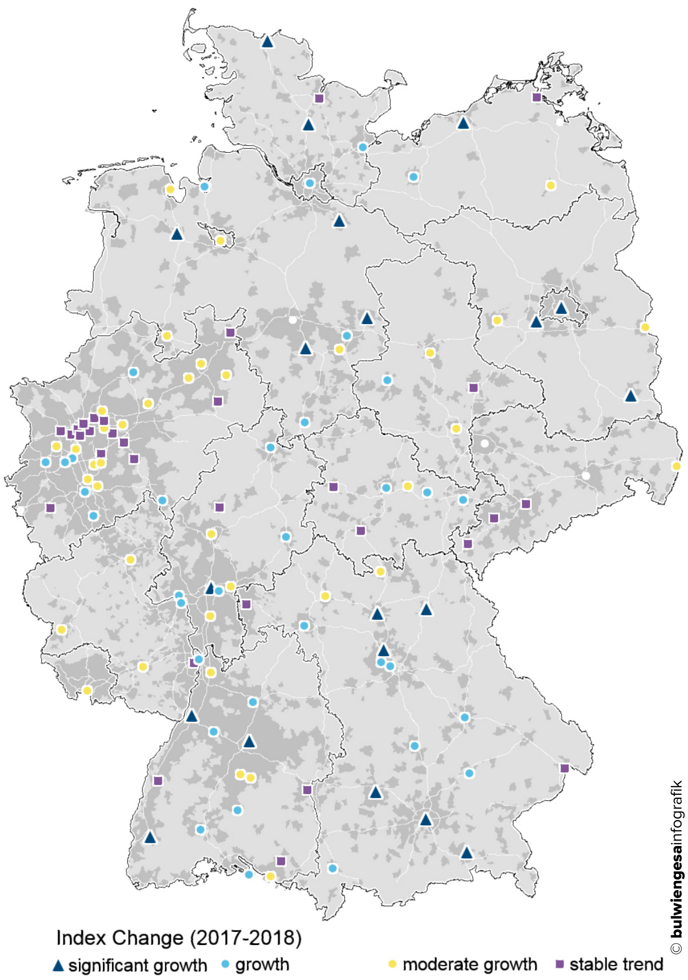
» Expectations for the future

Economic forecasts have deteriorated lately after early indicators suggested a downward trend, but it should be added that gross fixed capital formation in built-up structures will barely be affected by it. The real estate market is bolstered by a stable labour market, among other factors. Moreover, the faster demographic growth in the cities when compared to rural regions will keep driving demand for living and working accommodation in the metro areas. In the short term, efforts to expand the real estate supply are constrained by the shortage of labour and land while natural resources will develop supply bottlenecks in the medium term.

For the time being, the real estate market continues to benefit from the accommodative monetary policy. At the earliest, a first cautious interest rate hike may be expected by the end of the year. Given the brisk price dynamics, the potential for real price growth will remain limited over the next few years, despite favourable terms of financing. However, the threat of major market adjustments is negligible as long as pent-up demand continues to go unmet. But if the monetary policy got tighter than expected by the market, it would no doubt increase the risk of market setbacks.

» 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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