February 2025

PRAEMIA REIM GERMANY STANDPUNKT

Investors’ view on the German Real Estate Market

Florian Wenner, Head of Research & ESG,
Praemia REIM Germany

Key Facts 2025

FORECAST ECONOMIC GROWTH (GDP)

-0.1 %

FORECAST INFLATION

+2.1 %

10-YEAR GOVERNMENT BOND YIELDS (January 2025)

+2.3 %

Source: Oxford Economics, Bundesbank

The Research & ESG Department’s role is to formalize Praemia REIM’s real estate investment strategies, based on continuous monitoring of the European markets. By nature, real estate is at the crossroads of financial (interest rates), economics (tenants), demographics and social factors. This is why a broad analysis is needed, which is also long term and therefore matches the horizon of most real estate investors.

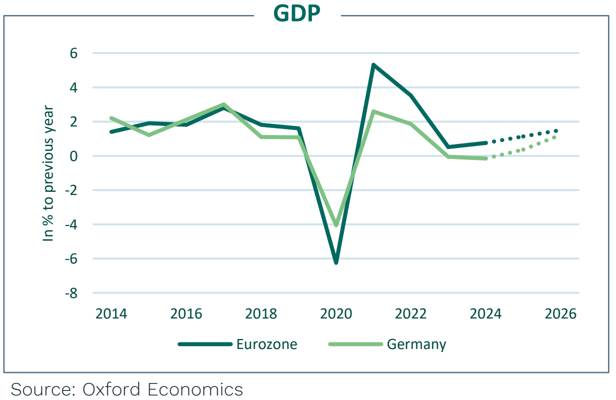
Praemia REIM relies on its local teams to provide on-the-ground research on the German markets. As Germany is a polycentric market, with specific real estate features, standards of valuation, demographic challenges and industrial forces, we want to provide a regular analysis of Germany´s real estate markets, from the investor´s viewpoint. This is the purpose of our quarterly Standpunkt.

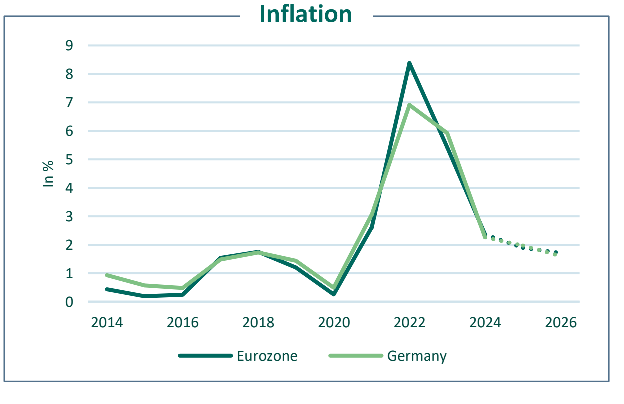
ECONOMY

Looking at the economic forecasts, one almost gets the impression that the economy is stuck in a time loop: relatively optimistic GDP forecasts are published at the end of the year, which are then successively revised downwards as the year progresses. It was only at the end of January 2025 that the BMWK had to lower its forecast for economic growth from over 1% to 0.3%. This is in line with Oxford Economics' current forecast. In the last two years, Germany has recorded negative economic growth. Despite the rather pessimistic outlook, Germany remains the largest economy in Europe - a fact that cannot be stressed enough, also with regard to the real estate markets in Europe.

INFLATION

For 2024 as a whole, the inflation rate in Germany was around 2.3%, close to the ECB's target of just below 2%. Inflation is expected to remain in line with the ECB's target in 2025 and 2026. At the end of January, the ECB decided to lower its key interest rate for the fifth time in a row. The deposit rate currently stands at 2.75%. For the real estate sector, this means a further, albeit slight, improvement in financing conditions and the prospect of higher risk premiums for real estate investments. At the same time, interest rate cuts have recently been within the range already expected by the market, so that no major psychological impetus is to be expected from the turnaround in interest rates. Against the backdrop of an uncertain geopolitical situation, there is an increased risk of exogenous shocks that could trigger a sharp rise in inflation, e.g. a trade war with China triggered by the US.



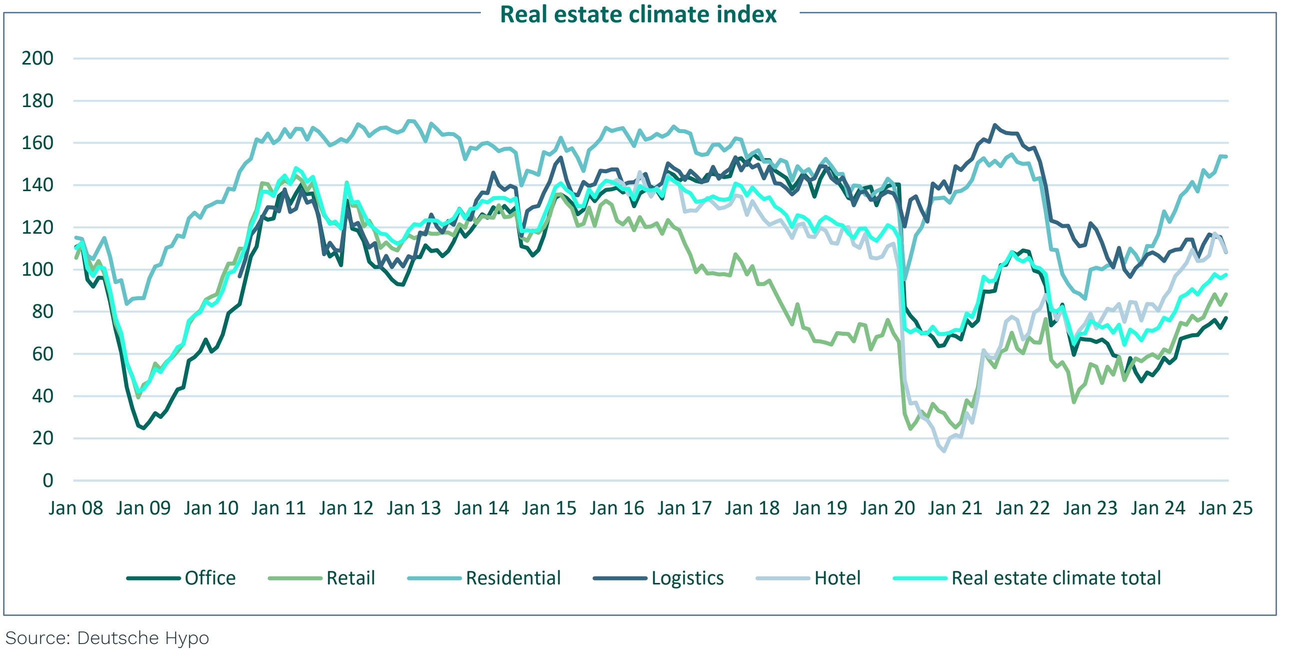


Source: Oxford Economics

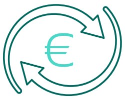
GERMAN REAL ESTATE CLIMATE

Chart analysis is a popular way of visualizing price trends in the stock market. If we were to attempt a chart analysis of the Real Estate Climate Index, we would be able to draw clear trend lines in all asset classes since the fall of 2022, which could serve as an indicator of an imminent or already started upturn. It is well known that trend lines in the stock market are arbitrarily drawn and only suggest tendencies in a certain direction, but unfortunately are not reliable forecasts for the future. Logically, the same applies to the real estate market, where the sentiment barometer serves a different purpose anyway. Nevertheless, there is reason to hope that the real estate sector has emerged from the crisis.

At the same time, it can be assumed that the next few years will have nothing to do with the boom of the 2010s, when all asset classes - supported by the ECB's zero interest rate policy - were able to move above the 100-point mark for many years. Instead, the next real estate cycle is likely to be characterized by a strong polarity. Both between asset classes and within types of use, e.g. in terms of building quality (energy), location and user adaptability. In other words, the next real estate cycle will produce more losers than the last.



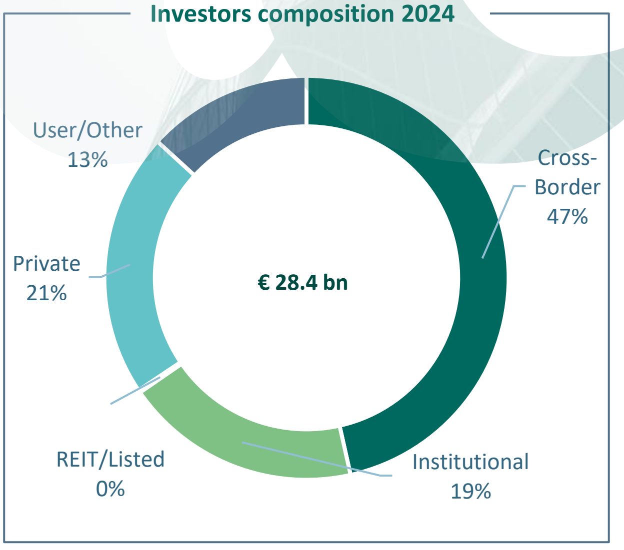
Source: Deutsche Hypo



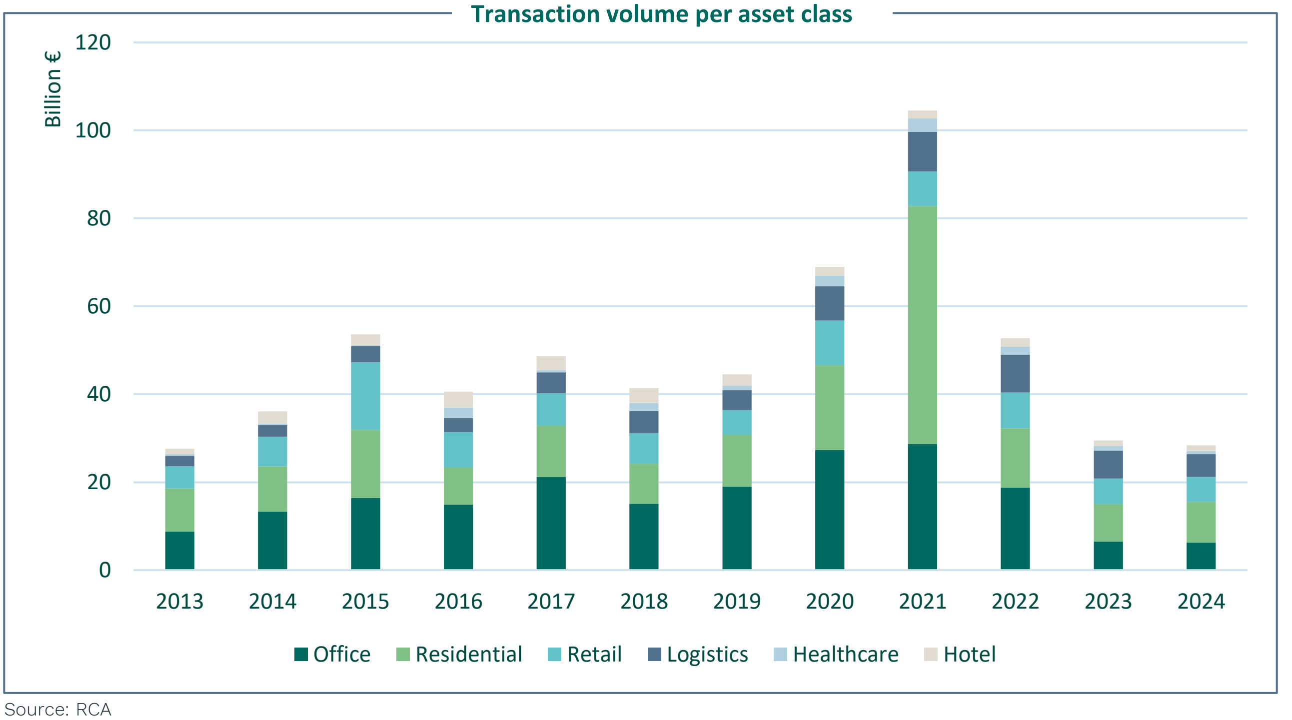
TRANSACTION VOLUME

It is often helpful to look at the recent past to determine which phase of a cycle we are in. Almost exactly a year ago, the industry was facing a " genuine real estate crisis year" (STANDDPUNKT January 2024). At the time, the industry's hopes were based primarily on the prospect of interest rate cuts and lower inflation. Transaction volumes were expected to rise by the beginning of the year at the latest. One year later, the following can be observed:

1) The transaction volume in 2024 is almost the same as in the previous year, corresponding to around 38% of the average for the boom years 2018 to 2022.
2) The expected and hoped-for recovery of the investment market in the second half of the year has materialized, albeit at a low level.
3) Residential remains the most popular asset class. This is followed by office, retail and logistics with transaction volumes of around EUR 5-6 billion. Office, historically the largest and most liquid asset class for institutional investors, remains the big problem child.
4) As expected by the market, the financing environment has stabilized significantly over the past year, contributing to a modest recovery in market activity.
5) As a result of lower interest rates, government bond yields have also declined over the course of the year. The yield on ten-year German government bonds is currently 2.5%, which means that real estate investments again bear a higher risk premium.



OUTLOOK
No major upswing is in sight for 2025 either, but there is reason to hope that the real estate industry will gradually emerge from crisis mode. In addition to the investor favorites residential and logistics, all residential-related uses such as senior living, micro living, student housing and hotels are very popular. There are also attractive opportunities in almost all asset classes, each with different risk and return profiles.



Source: RCA

SUMMARY ASSET CLASSES

Asset Class	Transaction Volume 2024	Transaction Volume 5-year-average	Cross-Border Volume 2024	Prime Yields Q4/2024	Trend Transaction Volume previous year
Office	€6.3 bn	€23.2 bn	€1.3 bn (20 %)	4.8 % (A-Cities)	↘
Residential	€9.3 bn	€20.9 bn	€4.2 bn (44 %)	3.4 %	↗
Retail	€5.6 bn	€7.5 bn	€2.4 bn (43 %)	4.6 % (High-Street-Shops)	↘
Healthcare	€0.7 bn	€1.8 bn	€0.47 bn (66 %)	5.4 % (Nursing homes)	↘
Hotel	€1.3 bn	€1.7 bn	€0.6 bn (45 %)	5.3 %	↗
Logistics	€5.2 bn	€7.4 bn	€4.0 bn (77 %)	4.4 %	↘

Source: RCA. CBRE

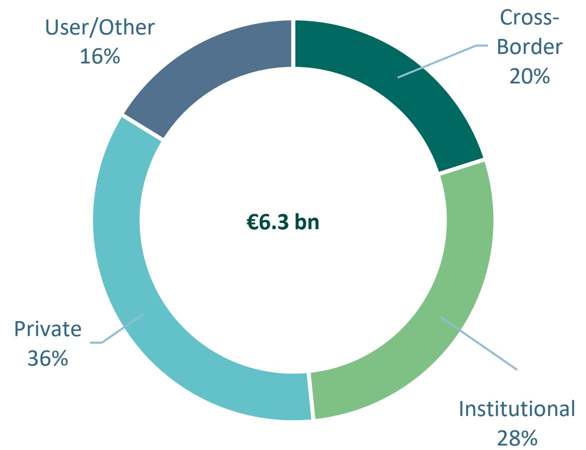
OFFICE

OFFICE TRANSACTION VOLUME 2024	**€6.3 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME 2024	**€1.3 bn**
PRIME YIELDS OFFICE A-CITIES Q4/2024	**4.8 %**
PRIME YIELDS OFFICE SECONDARY-CITIES Q4/2024	**5.4 %**
TRANSACTION VOLUME TREND COMPARED TO THE PREVIOUS YEAR	➘

As expected, the performance of office investment for 2024 was subdued. At EUR 6.3 billion, the transaction volume was below the ten-year average for the third year in a row. The low share of foreign investors illustrates the crisis in the office sector. This is compounded by a weakening German economy, which shrank for the second year in a row in 2024. Nevertheless, the labor market has remained comparatively stable until recently, with unemployment figures barely rising last year despite the weak economy. The latest figures from January 2025 paint a different picture. The unemployment rate now stands at 6.4%, a significant increase, even when seasonally adjusted. Despite all the adversity, the office rental market remains stable. Office take-up has increased over the year, but is still low compared to the boom years. In the Top 7, office space take-up was slightly higher than in the previous year. The rental market continues to be driven by modern office properties in central locations.

The transaction market was mainly characterized by the consolidation of existing office portfolios of the core market players. Significant transactions took place predominantly in the major German cities. Looking at the development of prime yields, there was no increase in yields for the fourth consecutive quarter, indicating a stabilization of the office investment market, not least due to the improved financial environment.

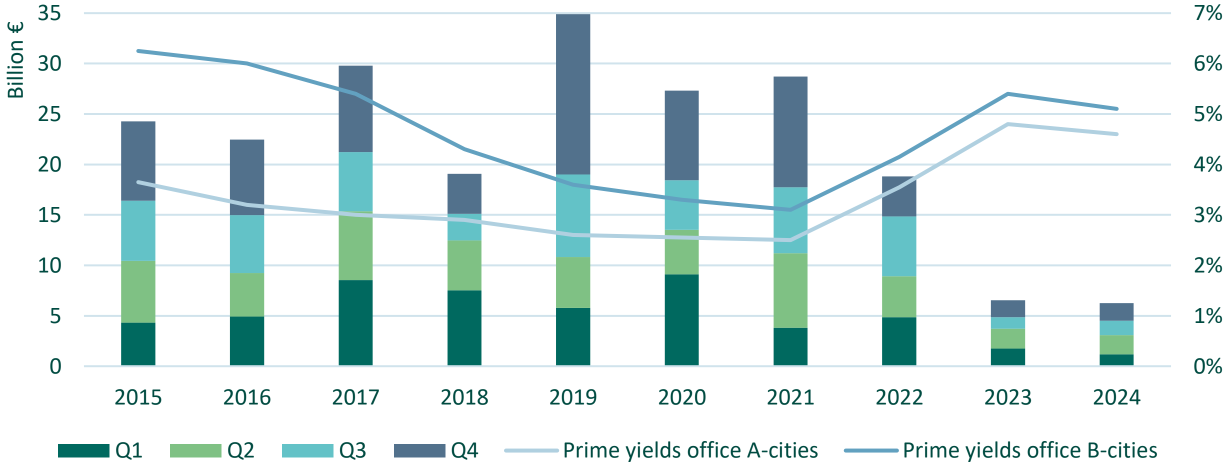
Investors composition office 2024



OUTLOOK

The office market, the problem child of the German real estate market, continues to be accompanied by investor skepticism and low transaction volumes. The structural challenges posed by home office, a changing working environment and a weakening economy will remain the key challenges in 2025.

Office transaction volume and yields



Source: RCA, CBRE

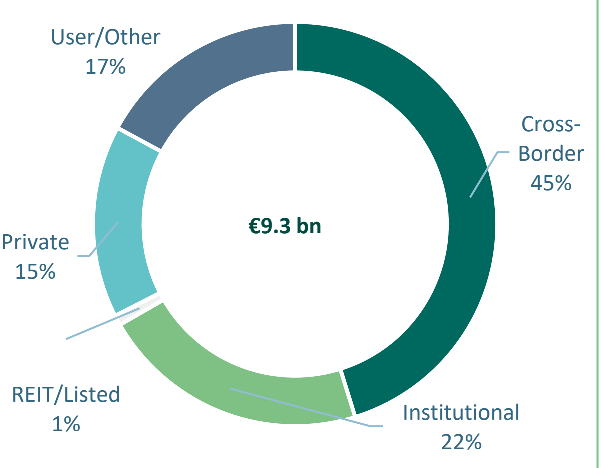
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL 2024	**€ 9.3 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME 2024	**€ 4.2 bn**
PRIME YIELDS RESIDENTIAL Q4/2024	**3.4 %**
TRANSACTION VOLUME TREND COMPARED TO THE PREVIOUS YEAR	↗

German residential real estate remains popular with investors. With a 33% share of total transaction volume, residential real estate ranked first among asset classes for the second year in a row. The strong demand for German residential real estate is also reflected in a high proportion of foreign capital and an unchanged prime yield of 3.4%.

There is still little movement in construction activity. About 250,000 apartments are expected to be completed for the year as a whole, although exact figures are not yet available. Even more dramatic against the backdrop of the housing shortage in the metropolitan areas, however, are the approval figures, which will determine future completion figures. Between January and November 2024, only about 190,000 apartments were approved, 19% less than in the previous year. Even if there is a new housing policy stimulus after the general election, it will be a long time before new residential construction gains momentum. In the current environment, therefore, significant rent increases are expected in the next few years in the most sought-after urban centers. Against this backdrop, greater regulatory intervention in the residential rental market cannot be ruled out, even if housing policy has taken a back seat in current political debates.

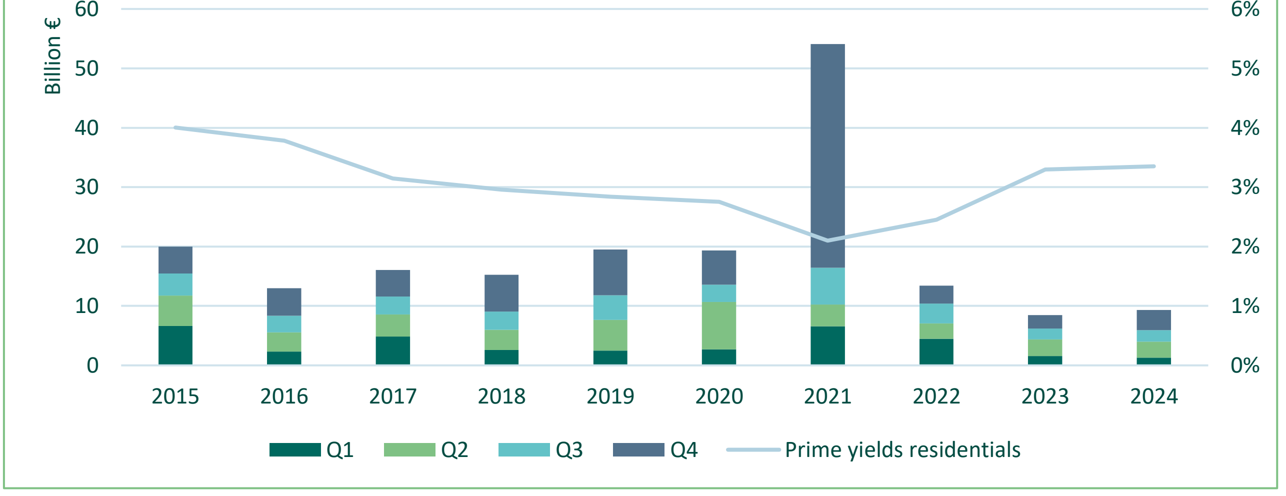
Investors composition residential 2024



OUTLOOK

Comparatively high transaction volumes, large-volume deals, a high proportion of foreign capital, stable prime yields, great potential for rent increases - in short, the outlook for German residential real estate is positive. The shortage of supply and the low level of new construction should continue to drive up residential rents in metropolitan areas this year. The biggest risks remain rent regulation and higher-than-expected costs for energy-efficient building renovations.

Residential transaction volume and yields



Source: RCA. CBRE

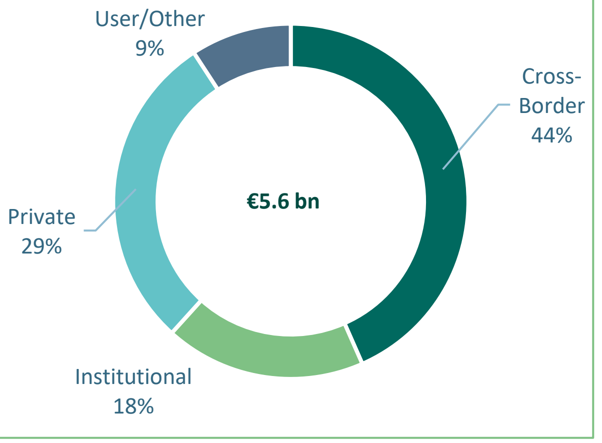
RETAIL

TRANSACTION VOLUME RETAIL 2024	€5.6 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME 2024	€2.4 bn
PRIME YIELDS HIGH-STREET-SHOPS Q4/2024	4.6 %
PRIME YIELDS SUPERMARKETS Q4/2024	4.8 %
PRIME YIELDS SHOPPING-CENTER Q4/2024	5.9 %
TRANSACTION VOLUME TREND COMPARED TO THE PREVIOUS YEAR	↘

With a transaction volume of EUR 5.6 billion and a share of 20% of the total transaction volume, the German retail market took third place. Nevertheless, the transaction volume, which is driven by large single deals, represents the lowest ten-year average. Prime yields for high-street stores fell slightly to 4.6%, highlighting the high demand for first-class core real estate in city centers. Prime yields for supermarkets and shopping centers remained unchanged at 4.8% and 5.9% respectively.

Negative economic growth and cautious forecasts for 2025, as well as high geopolitical uncertainty, have led to uncertainty among households and a low consumer propensity. Despite wage growth, consumer spending has barely increased year-on-year. The mood for the coming months of the current year is also rather restrained: according to the latest HDE retail barometer, the consumer climate has deteriorated even further compared to last fall. People are saving rather than consuming, mainly due to fears of social decline and job losses. It remains to be seen whether the upcoming elections will bring about a change in public sentiment and thus a revival in the retail sector.

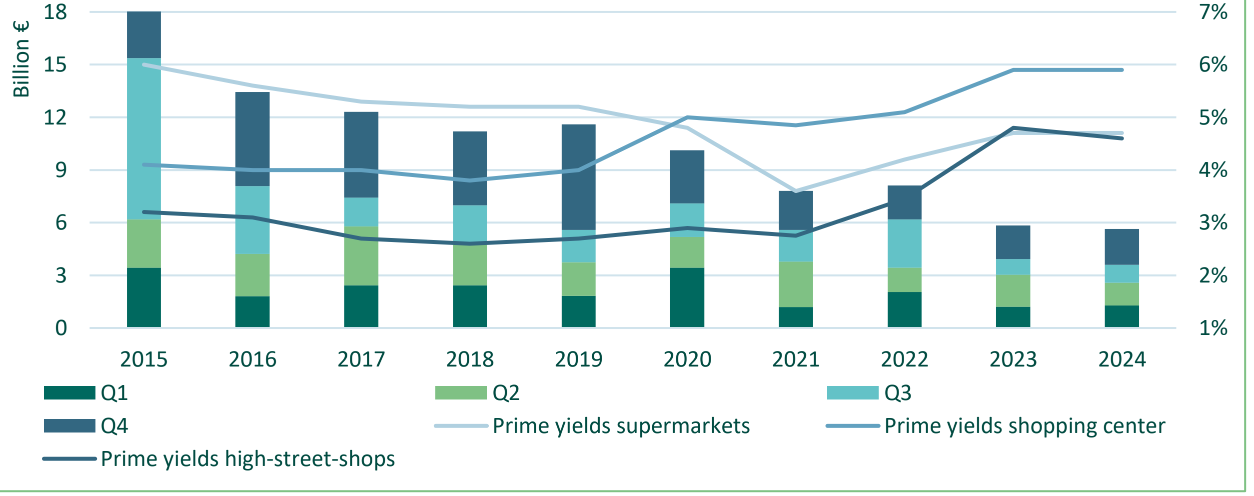
Investors composition retail 2024



OUTLOOK

Last year, the investment market for retail real estate was shaped by large retail deals and portfolio sales with a focus on grocery stores. With the exception of continued strong demand for grocery stores and selected high-street assets, demand for retail properties is expected to remain moderate through 2025, so no major leaps in transaction volume are expected.

Retail transaction volume and yields



Source: RCA. CBRE

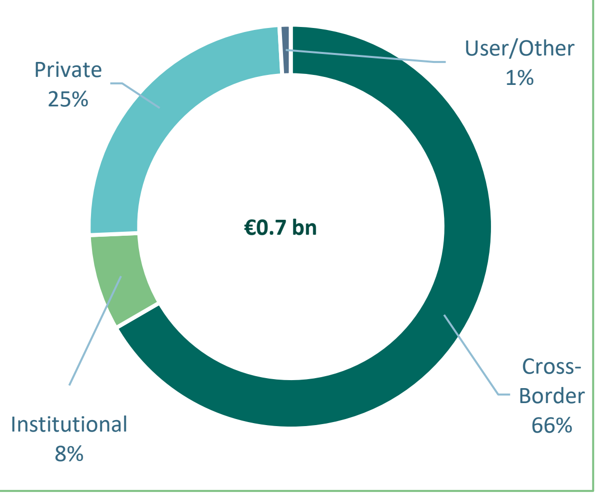
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME 2024	**€0.7 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME 2024	**€0.47 bn**
PRIME YIELDS HEALTHCARE Q4/2024	**5.4 %**
TRANSACTION VOLUME TREND COMPARED TO THE PREVIOUS YEAR	➘

In 2024, around EUR 0.7 billion was invested in nursing homes and assisted living, the lowest level since 2017. Nevertheless, the perception of the market is much more positive than the figures suggest. There are several reasons for cautious optimism:

1) Transaction activity picked up significantly towards the end of the year, which bodes well for a dynamic year of transactions in 2025.
2) Nursing home operators have largely succeeded in renegotiating care rates. This is reflected in significantly higher nursing home fees. According to VDEK, investment costs (I costs) rose by 5.2% between January 2022 and July 2024.
3) Investors continue to focus on less cyclical asset classes. Due to demographic trends, healthcare real estate is a particular focus, provided that investment in this niche class is conceivable in principle.
4) The majority of capital invested in German healthcare real estate last year came from abroad. Foreign investors therefore have a much more positive view of the asset class than domestic investors, who are considered to be more conservative and hesitant.
5) Prime yields remain unchanged at 5.4%. Long-term healthcare investments therefore continue to offer an attractive risk/return ratio.

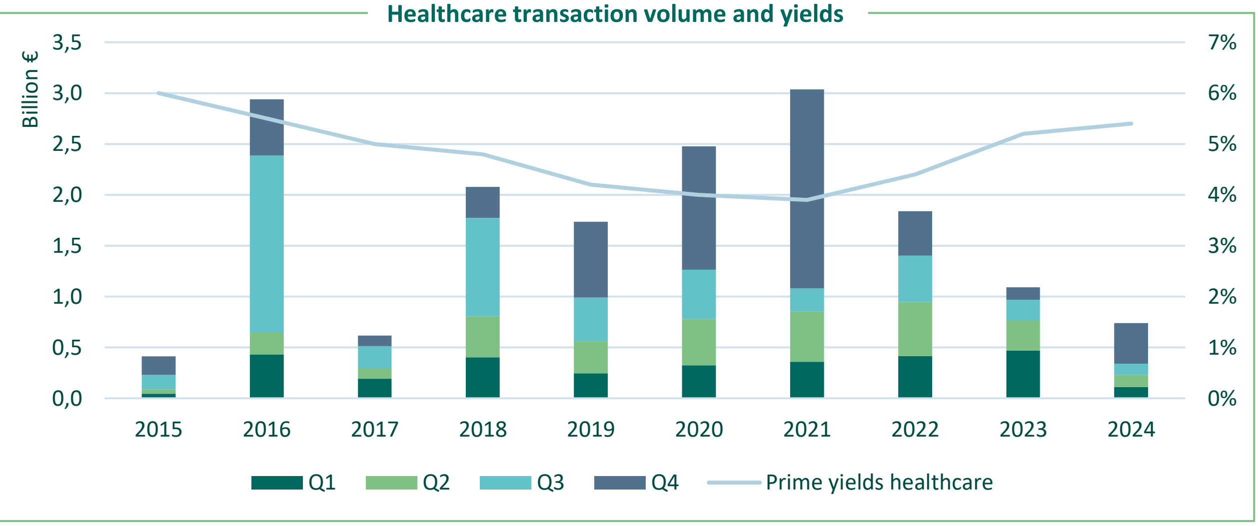
Investors composition Healthcare 2024



OUTLOOK

The healthcare real estate market is gradually regaining momentum. Over the past two years, operators have largely succeeded in renegotiating care rates and thus stabilizing their own financial situation. At the same time, prices – even for nursing homes in impeccable condition with operators with strong credit ratings – are still far from the peak in 2021. The entry point for healthcare investments therefore appears attractive at present.

Healthcare transaction volume and yields



Source: RCA. CBRE

HOTELIMMOBILIEN

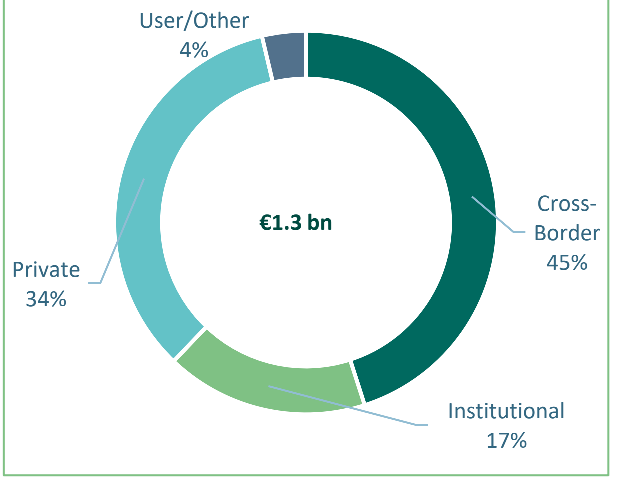
HOTEL TRANSACTION VOLUME 2024	€1.3 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME 2024	€0.6 bn
PRIME YIELDS HOTEL Q4/2024	5.3 %
TRANSACTION VOLUME TREND COMPARED TO THE PREVIOUS YEAR	↗

The German hotel market currently gives cause for some optimism. At EUR 1.3 billion, the transaction volume is 7% higher than in the previous year. The constant prime yield of 5.3% confirms the positive sentiment (see Real Estate Climate Index) for hotel investments.

The large-volume sale of the Hotel de Rome for approximately € 145 million made a notable contribution to the total transaction volume in the German hotel market.

Figures from the German Tourism Association indicate that the trend towards high tourist overnight stays is persisting. German accommodation providers recorded around 465 million overnight stays in 2024 (data up to November), which corresponds to an increase in overnight stays of 1.8% compared to the previous year. This includes both domestic and international guests. This is the first time that the record number from 2019 has been exceeded in the first eleven months of a year. The good number of overnight stays is due to an increase in both business and leisure travel.

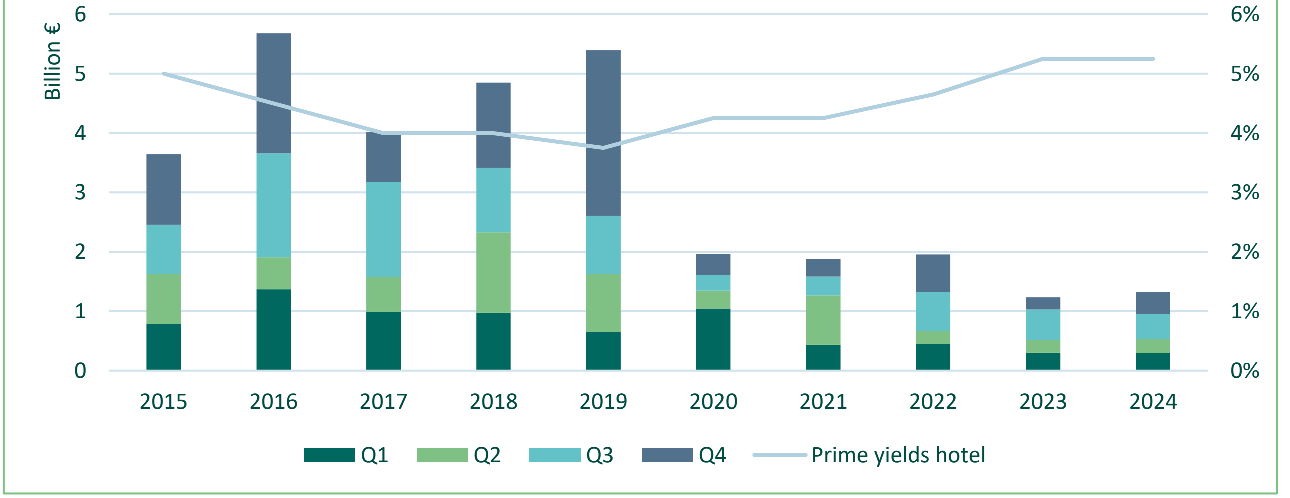
Investors composition hotel 2024



OUTLOOK

Strong transaction and tourism figures point to a full recovery in the German hotel industry. Investors are also returning to this asset class, which has been struggling since the coronavirus pandemic. In particular, joint venture structures with expanding operator chains on the one hand and asset managers and investors on the other are becoming increasingly popular.

Hotel transaction volume and yields



Source: RCA. CBRE

LOGISTICS

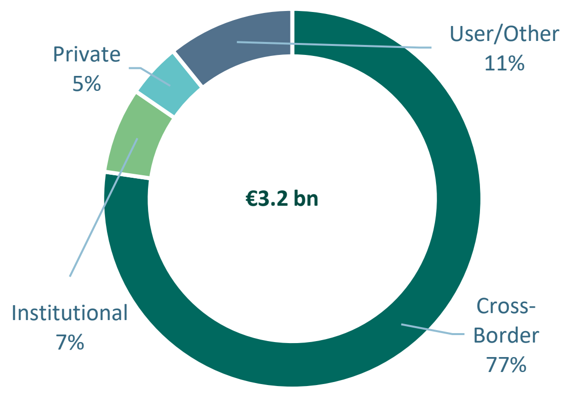
LOGISTICS TRANSACTION VOLUME 2024	€5.2 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME 2024	€4.0 bn
PRIME YIELDS LOGISTICS Q4/2024	4.4 %
TRANSACTION VOLUME TREND COMPARED TO THE PREVIOUS YEAR	↘

Around €5.2 billion was invested in German logistics real estate in 2024, a decrease of 18% compared to the previous year. This puts logistics real estate in 4th place, just behind office real estate. At 77%, foreign investors accounted for the largest share of invested capital. The prime yield for logistics properties remained virtually unchanged at 4.4%.

The weakening economy is also affecting the logistics market in the form of lower occupier demand. This is reflected in a slight decline in take-up. Although the transaction market in 2024 was dominated by new construction projects, the challenges of space shortages and high construction costs remain.

Overall, the logistics sector has proven to be very robust during the past two years of the real estate crisis. This applies not only to transaction activity, but also to the rental markets, where both top and average rents have risen over the past year.

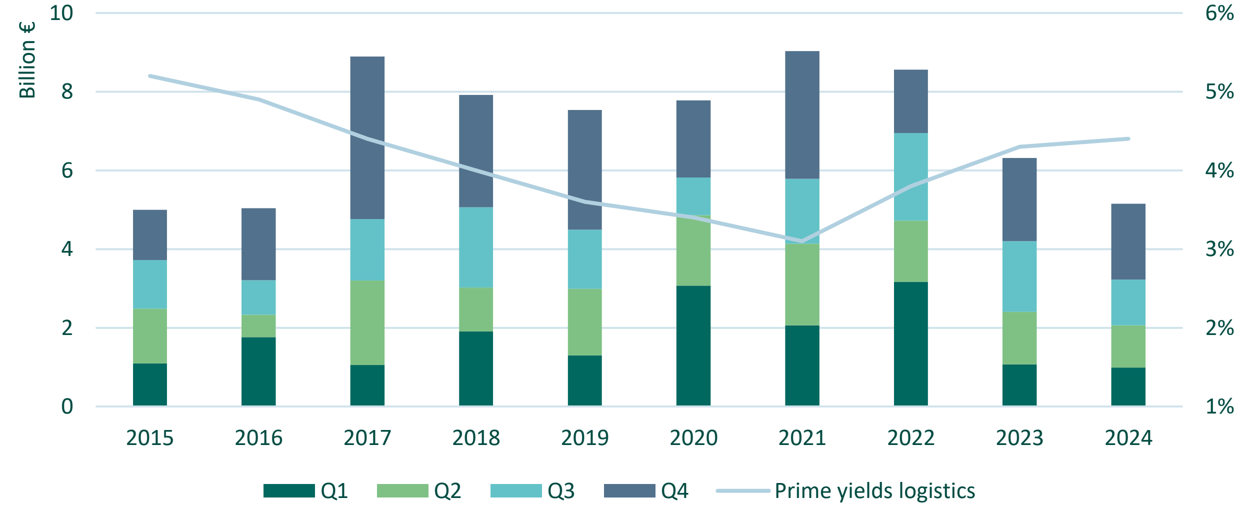
Investors composition logistics 2024



OUTLOOK

High demand from domestic and foreign investors should ensure stable transaction volumes and prime yields again this year. However, there is no reason for exaggerated euphoria in the logistics sector either, as both the shortage of space and the lack of economic growth are clouding the outlook to some extent.

Logistics transaction volume and yields



Source: RCA. CBRE

DEFINITIONS

10-year government bonds: debt securities issued by a state for a period of ten years, generally acknowledged to be a risk-free investment.

Investment volume/transaction volume: total volume of premises acquired in the offices, residential, retail, business premises and warehouses segments by an investor.

Take-up offices: all leases or sales to the occupant (as opposed to sales to investors) for premises to be used as offices. It is expressed as square meters of usable space.

Yield: ratio between the net revenues from the building and the capital committed by the buyer (acquisition price + fees and transfer taxes). All yields quoted follow this definition unless otherwise stated

High-Street-Shops: traditional ground-floor retail premises located in town-center high streets.

Shopping center: a building containing at least 20 retail outlets housed in indoor centers around a large food store that drives customer traffic.

RevPAR: abbreviation for Revenue Per Available Room. It corresponds to the turnover on accommodation of an establishment divided by the total number of rooms RevPAR also corresponds to Occupancy Rate multiplied by ADR.

Hotel Occupancy Rate (OR): ratio of the number of occupied rooms to the total number of rooms in a hotel.

About Praemia REIM

Praemia REIM has a workforce of 400 employees in France, Germany, Luxembourg, Italy, the UK and Singapore. Its values of conviction and commitment as well as its expertise on a European scale are used to design and manage real estate funds for its national and international clients, whether they are individuals or institutions.

Praemia REIM currently has €37 billion of assets under management. Its conviction-based allocation breaks down into:

47 % healthcare/education,
32 % offices,
9 % residential,
6 % retail,
5 % hotels,
2 % logistics.

Its pan-European platform manages 97 funds and has more than 80.000 investor clients, 44% of which are individual investors and 56% institutional. Its real estate portfolio consists of around 1.600 properties (offices, health/education, retail, residential, hotels) located in eleven European countries.

www.praemiareim.com
www.praemiareim.de

CONTACT

RESEARCH & ESG Department Germany

Florian WENNER • Head of Research & ESG Germany
florian.wenner@praemiareim.com

Melisa HAMZIC • Research & ESG Manager
melisa.hamzic@praemiareim.com

The Research & ESG Department's role is to formalize Praemia REIM's real estate investment strategies, based on continuous monitoring of the European markets. Although collective real estate accounts for a growing share of institutional portfolios and household savings, it is at the crossroads of financial (hierarchy of rates), economic (tenants' business models), demographic (the metropolization phenomenon) and societal (changes in usage) factors. This is why a cross-cutting analysis is needed, which is also long term and therefore in keeping with the horizon of most real estate investors.

STANDPUNKT offers Praemia REIM's quarterly view of the most important asset classes: offices, retail, residential, healthcare, hotel and logistics.

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