

Europe - Real Estate/Property

German residential expert call: what did we learn

Industry Overview

Net initial yield to stabilise at c.4%?

We invited experts (Mr. Helge Zahrnt, Mr. Benedikt Kiefer and Ms. Nicole Hock) from Cushman & Wakefield (C&W) to discuss German residential market. According to C&W, net initial yield for multi-family houses in Dec-23 stands at 3.9% (up by 140bps since 2020 low and 70bps increase in 2023 alone) vs micro-living at 4.4% (up 115bps since 2020), which makes reported net initial yield at <3% from some listed German residential companies look extremely low. However, C&W commented that quality, location and vacancy rates will be a factor. In addition, C&W expects the stabilisation of prime yield (most likely) in 2H24 at c.4%.

Rebound in transactions relies on lower rates

C&W sees no signs of transaction pick-up yet and in 1Q24 deals remain focused around value-add/high yielding asset vs typical core portfolios historically. In C&W's view, the rebound is more likely to happen in 2H24. A potential pick-up in privatisations (of condominiums) is also difficult to predict for 2024 at current stage, as volumes have not picked up yet in Q1. C&W did mention they see more liquidity in the market this year so far, calling on potentially lower ECB rates.

Rental growth accelerating

Major cities have seen accelerating rent growth in the past two years. Lack of new built (demand overhang) should drive further rental growth for both new and existing stocks. Regulatory framework limits only partially steep rent increase, in C&W's view. Number of permissions and completions dropped to 260k/245k respectively in 2023 (vs. >300k/260k in 2020) vs government target at 400k p.a. completion. The consequence is further upward pressure on rents and shortening supply: average length of online rental posting has shortened to <10 weeks (vs 17 weeks back in 2013).

Investors are still after residential products

Last year was subdued but residential is still a 'top' asset vs office a 'flop': overall investment volume in Germany was only €27bn (-60% yoy) with the highest share in residential (1/4th), followed by logistics (21%) and hotels (19%). This is a big drop for office, historically the top 1 or 2 share. Residential investment volume in 2023 was down 50% to €6bn and many transactions were 'not the typical deal' (more deferred purchase options, buying with lending in place - so below spot cost of funding). In C&W's view, the best investment opportunities present metropolitan & university cities with good population inflow. Good ESG proof is also crucial.

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ECB: European Central Bank

p.a.: per annum

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