

## Real Estate Strategic Outlook: Germany

### Stagnation in 2023 followed by Recovery in 2024

#### Easing inflation pressure prepares the path for rate cuts

Leading business indicators point to lower growth as manufacturing's downward trend spreads to the service sector while slowing global demand weighs on the export-dependent economy. However, wage growth and household spending appear more resilient. Restrictive financing conditions point to stagnation this year. But easing inflation pressure prepares the path for rate cuts, supporting a recovery in 2024.

### Real Estate Market

#### Price correction offers attractive opportunities

Transaction activity is still muted as financing and economic uncertainty weigh on investor sentiment. The price gap between buyers and sellers is narrowing but not yet closed. The German yields may still need until 2024 to reach their low point. However, looking forward, healthy occupier fundamentals, strong rental growth and yield compression in the medium-term support total returns.

### Real Estate sector strategy: what and where?

#### Focus on operational residential from a yield perspective

Residential remains our top pick in Germany. Strong household growth (migration) and declining mortgage affordability are increasing the overall demand for renting. New supply is limited as housing activity in July posted the sharpest drop since February 2010 and new construction starts dropped by circa 47% compared to last year. This should bode well for rental growth if wages continue to grow.

However, current yields for multi-family residential are low compared to the all-in cost of debt. Instead, we focus on operational residential like student housing, co-living and assisted living which profit from low penetration rates and spill-over effects from the tight rental market and offer a yield premium compared to multifamily. Here our focus is on cities like Berlin and Munich but also commuter and regional cities. We expect discounts for non-energy efficient stock to increase further.

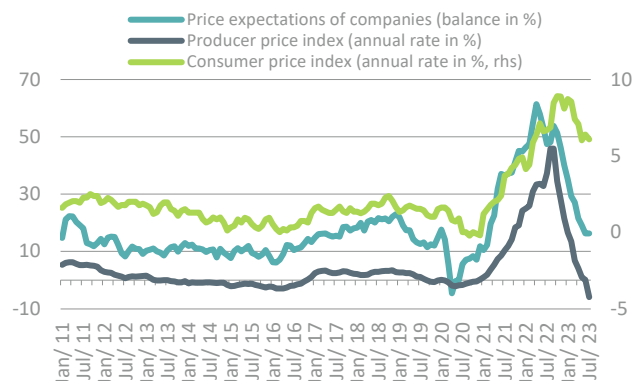
### Logistics: healthy demand meets supply shortage

Limited supply in key logistics hubs is expected to support rental growth, especially in urban locations. Construction activity is low and national vacancy is still below 2%. The tight market and increasing costs for occupiers are driving demand to peripheral locations (In-/Onshoring). Supply chain diversification efforts also tend to support demand for warehousing, and we expect a continued rise in e-commerce penetration rates. The price correction in the logistic segment seems frontloaded compared to other sectors in Germany. Focus on urban key markets and repriced corridor locations. Aged assets also allow for refurbishment strategies.

### Office: polarisation supporting prime rents

Overall robust fundamentals and flight to quality by occupiers is reflected in the bifurcation of vacancy rates and rental growth between submarkets and by quality. Tenant focus on central locations and high-quality space is driving up prime rents. Higher discounts for grade B stock offer excellent opportunities for refurbishments into high-quality office space. Focus on CBD and prime locations in Berlin and Munich.

### Inflation likely to fall sharply



Source: Macrobond, ifo, Destatis. As of August 2023.

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