

Real Estate Strategic Outlook: Germany

Political uncertainty offers risks and opportunities

Increasing pressure to act could drive growth

Germany's structural challenges are becoming apparent, increasing the pressure on politicians to act. Economists point to a €600 billion investment gap, highlighting the need for investments in infrastructure, education, defence, and future technologies like the green transition.¹ On the positive side, Germany's relatively low debt-to-GDP ratio of 62.9% provides room for manoeuvre if the government decides to act.²

The most likely outcomes after potential elections in February appear to be a "grand" coalition between the CDU and SPD or a black-green coalition. This could be a positive development for Germany's economic future, as increased government spending, particularly on external security and investments, could help revive the German economy. A less restrictive monetary policy stance may also help the export driven economy while international risks have increased significantly with the full-blown trump win and likely tariffs.

German Real Estate Market

Gradual recovery underway but sectoral differences persist

Transaction activity is showing early signs of recovery, particularly in the residential and logistics segments, while liquidity in the office segment is still particularly weak. Prime yields have stabilised and we expected compression over the coming quarters. Despite challenges like economic stagnation, slow valuation adjustments and rising distress, especially among developers, we see great opportunities in the German market. We remain most optimistic about the residential and logistics sectors, anticipating strong rental growth due to low construction activity. Expected total returns appear attractive across sectors. With a more dovish ECB potentially cutting rates more than expected, we foresee a significant improvement in investment sentiment and liquidity.

Real estate sector strategy: what and where?

Residential fundamentals remain exceptionally tight

Residential, as the most supply constrained sector in Europe, is our top pick in Germany given its relatively good affordability ratio and the continued slump of construction. German Top 8 markets exhibit virtually no vacancy, putting strong upward pressure on rent growth in the unregulated part of the market. We prefer newly built residential assets in central and commuter locations within major cities, as well

as operational living across top cities. Moreover, we see great opportunities in the refurbishment of outdated stock.

Logistics outlook remains positive but more selective

Increasing supply in the logistics sector has led us to a more selective approach but hasn't changed our positive view on the sector. We see a continued shortage of high-quality stock leading to further rent growth in many locations, particularly Munich, Frankfurt and Dusseldorf. On the flip side we are more cautious in the North and East of Germany in the likes of Berlin, Bremen and Leipzig.

Overall, positive long-term trends support our optimistic outlook, despite a moderate rise in the nationwide vacancy rate to 3.8% in the third quarter of 2024.³ We still expect elevated rent growth and rising investor interest given the attractive yield levels.

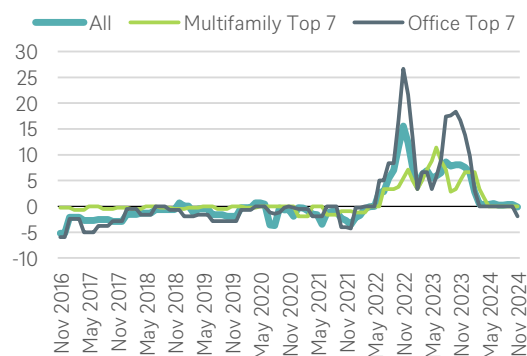
Office and retail pricing has stabilised

Office investment and take-up levels are still muted, with weak sentiment and low growth prospects, but we expect continued strong rent growth at the prime end of the market, with Frankfurt and Hamburg at the top of the pile. Thus, the recent strong price correction offers selective opportunities as potential returns look increasingly attractive.

The long downward trend in retail rents seems to be slowly easing, and yields are attractive. However, we remain cautious towards retail due to the weak economy, poor consumer sentiment and still rising share of online trade.

Germany Prime Yield Shift

3-month rolling average in basis points



Source: CBRE, November 2024

¹ IW, IMK, 2024.

² Eurostat, October 2024.

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