

Real Estate Strategic Outlook: Germany

Fiscal Policy Supports German Outperformance

Solid debtor, more growth and lower bonds

Our outlook for the German economy has only strengthened over the past six months, underpinned by fiscal stimulus, stronger economic growth, and attractive financing conditions. The new government's reform of the debt brake is expected to bolster GDP growth, with additional defence and infrastructure spending potentially contributing over one percentage point to GDP by 2027. Despite this fiscal expansion, Germany remains a prudent borrower—public debt is projected to only slightly exceed 80% by 2036, still the lowest among G7 nations. Meanwhile, German Bund yields have fallen below 2.5% again, supporting real estate valuations.

German Real Estate Market

Strong, accelerating recovery

Cross-sectoral take-up has increased significantly in early 2025 compared to the previous year, and we anticipate this upward trend to persist. Transaction volumes are also on the rise, with residential deal activity up by 30% in Q1 2025. Notably, residential prices have seen their strongest growth since mid-2022.¹ We also observe a notable uptick in residential lending activity, with VdP members (German Pfandbrief Banks) increasing issuance by over 30% in Q1 2025 compared to both the previous quarter and the same period last year.²

While there are more assets coming to the market, questions remain over the volume of transaction activity. Office properties are being put on the market by many owners, but investor interest in this segment remained limited for now. Prime yields have stabilised across sectors, and we anticipate moderate yield compression in the coming quarters. Thus, we continue to see compelling opportunities in the German market driven by strong rent growth.

Real estate sector outlook: what and where?

Residential outperforms

We continue to favour the residential sector, which remains the most supply-constrained across Europe and is our top pick in Germany. This preference is underpinned by relatively favourable affordability dynamics and a sustained slowdown in new construction, although building permits have recently begun to show signs of recovery. While Germany's Top 8 cities show virtually no vacancy—driving strong rental growth in the unregulated segment—we are increasingly drawn to

tightly supplied regional cities with compelling growth narratives. We prefer newly built residential assets in central and commuter locations within supply constrained cities, as well as operational living across top cities. Moreover, we see opportunities in the refurbishment and conversion of outdated stock.

Defence and infrastructure drive Logistics

Germany's defence and logistics ecosystem stands out in Europe. We prefer Bavaria as home of Airbus Defence and Space, along with a dense network of suppliers and logistics providers while the Rhine-Main region is a strategic logistics hub near Frankfurt airport. We also like North Rhine-Westphalia home to various defence manufactures with excellent rail and road infrastructure. We still forecast elevated rent growth and rising investor interest given the attractive yield levels.

Office and retail attractiveness increases

Office investment and take-up levels are still muted, with weak sentiment and overall moderate growth prospects for average stock. But we expect continued strong rent growth at the prime end of the market, with Frankfurt and Munich at the top of the pile. And with the recent strong price correction we see the sector now offering selective opportunities as potential returns look increasingly attractive.

The prolonged decline in retail rents appears to be gradually stabilising, and current yield levels are appealing. However, we remain cautious on the sector due to weak sentiment and indexed driven overrent situation.

German Living Investment & Pricing



Source: RCA, June 2025

¹ GREIX, Market Update Q1 2025, May 2025.

² VdP, New Lending Q1 2025

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