

## Real Estate Strategic Outlook: Germany

### Business indicators point to gradual recovery

#### Rising wages support consumption but orders remain low

The German economy has showed solid growth early this year, driven by temporary effects after a noticeable decline at the end of 2023. Business indicators point to a gradual recovery with ifo expectations being at the highest level since April last year and Services PMI pointing to the strongest growth since June 2023.<sup>1</sup>

The robust labour market – negotiated earnings rose by a steep 6.2% in the first quarter – should result in positive real wage growth, supporting private consumption. The services recovery may continue, but new orders in manufacturing are still low and activity in the construction sector remains muted.<sup>2</sup>

### Germany Real Estate Market

#### Great vintage as expected returns are exceptionally high

Property yields seem to have stabilised after a period of significant price correction and are expected to contract again looking ahead. This should result in strong market returns over the next five years across all sectors, enhanced further by strong rental growth in some markets. Rate cuts, expected to start in June, should set the scene for improving investment sentiment and liquidity over the coming 12 months.

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

#### Residential remains on the top of the agenda

The residential sector – and particularly the micro living and student housing subsegments – continues to be our top pick in Germany. Strong demand and falling construction activity are enhancing demand-supply imbalances. Major markets like Berlin, Munich and Frankfurt exhibit virtually no vacancy, putting strong upward pressure on rent growth in the unregulated part of the market. Higher entry yield levels provide higher returns, while operational residential offers an additional yield premium on top of this.

#### Repriced logistics with healthy fundamentals

Overall, speculative supply in the logistics sector increased in 2023, but a stronger focus on ESG requirements and a

persistent lag of high-quality stock continue to push prime rents forward. Thus, positive long-term trends and healthy market fundamentals support the positive outlook despite a moderate rise in nationwide vacancy rate to 2.7% in the first quarter of 2024.<sup>3</sup> As this trend is likely to be temporary, we still expect elevated rent growth, and not only for urban logistics. Higher entry yields and strong growth prospects make the logistics market an attractive proposition at the moment.

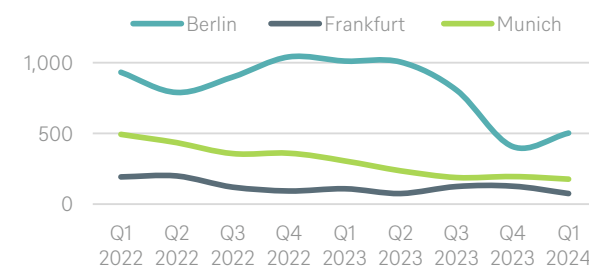
#### Weak sentiment in the office sector provides opportunities

Office demand remains challenging, both from a tenant and an investment perspective, but significant price corrections make investments more attractive. Weak sentiment and an overallocation to the sector continues to weigh on investment liquidity, despite relatively strong expected returns in the prime segment. Approaching rate cuts may gradually encourage more investment activity in the short-to-medium term.

Lower development starts and limited supply of high-quality space in central locations should support prime rents. Ongoing polarisation in the market supports refurbishment strategies as well as conversions to other uses. Expected market returns are exceptionally high from a historical viewpoint.

### Office Development Starts Trending Downwards

Thousand square meters, 12-month rolling



Source: CBRE, May 2024.

<sup>1</sup> Oxford Economics, May 2024.

<sup>2</sup> Bundesbank, May 2024.

<sup>3</sup> CBRE, April 2024.

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# Real Estate Research Team

## Office Locations

### Frankfurt

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: +49 69 71909 0

### London

45 Cannon Street  
London, EC4m 5SB  
United Kingdom  
Tel: +44 20 754 58000

### New York

875 Third Avenue  
26<sup>th</sup> Floor  
New York  
NY 10022-6225  
United States  
Tel: +1 212 454 3414

### San Francisco

101 California Street  
24<sup>th</sup> Floor  
San Francisco  
CA 94111  
United States  
Tel: +1 415 781 3300

### Singapore

One Raffles Quay  
South Tower  
15<sup>th</sup> Floor  
Singapore 048583  
Tel: +65 6538 7011

### Tokyo

Sanno Park Tower  
2-11-1 Nagata-cho  
Chiyoda-Ku  
18<sup>th</sup> Floor  
Tokyo  
Japan  
Tel: +81 3 5156 6000

### Sydney

Level 16, Deutsche Bank Place  
Corner of Hunter and Phillip Streets  
Sydney NSW 2000  
Australia  
Tel: +61 2 8258 1234

## Teams

### Global

#### Kevin White, CFA

Global Co-Head of Real Estate Research

#### Simon Wallace

Global Co-Head of Real Estate Research

### Americas

#### Brooks Wells

Head of Research, Americas

#### Liliana Diaconu, CFA

Office & Retail Research

#### Ross Adams

Industrial Research

#### Sharim Sohail

Self-Storage Research

### Europe

#### Ruben Bos, CFA

Head of Real Estate Investment Strategy, Europe

#### Tom Francis

Property Market Research

#### Rosie Hunt

Property Market Research

#### Martin Lippmann

Head of Real Estate Research, Europe

### Asia Pacific

#### Koichiro Obu

Head of Real Estate Research, Asia Pacific

#### Seng-Hong Teng

Property Market Research

#### Hyunwoo Kim

Property Market Research

#### Matthew Persson

Property Market Research

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**AUTHORS**



**Martin Lippmann**  
Head of Real Estate Research, Europe



**Carsten Lieser**  
Property Market Research

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