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The Berlin Hyp Trendbarometer survey: Real Estate Industry Between Concerns and Optimism

The real estate sector is entering the year-end sprint with mixed feelings. This was the result of the latest Trendbarometer survey* conducted by commercial real estate financier Berlin Hyp among over 400 real estate professionals. Here are the main findings:

- **Industry is focused on interest rates, politics and economic development**
- **German commercial real estate market is becoming less attractive**
- **Residential and logistics asset classes have the greatest potential**
- **Office property needs to prove its relevance anew**
- **Doubts around the banks' willingness to provide financing**

“The sector is caught between hope and fear,” says **Sascha Klaus, Chair of the Board of Management of Berlin Hyp**, describing the mood in the real estate industry.

“Following a long period of pessimism, the outlook is now quite different. While some are already looking ahead again and are pleased about a slight uptick in the market, others are still very preoccupied about their own business situation. The turnaround in interest rates is providing hope broadly speaking, while the weak German economy is causing concern.”

Despite slight upward trends, there is still a long way to go before the previous self-confidence returns. This is illustrated by the change in sentiment on the Trendbarometer question posed by Berlin Hyp on a regular basis: **“How do you currently assess the attractiveness of the German commercial real estate market as compared to the rest of Europe?”**. The proportion of respondents who currently consider the German commercial real estate market “less attractive” than its European counterparts is 35 per cent. In 2021, before the start of the war in Ukraine, this figure was only 2 per cent. Conversely, 53 per cent thought the German market was “slightly more attractive” back then, but only 29 per cent still see it that way now.

“In your opinion, which asset class currently has the greatest potential to recover soon?”: responses to this question show glimmers of hope. In line with the view that housing will always be in demand, 45 per cent believe in a thaw in the residential sector. Lower interest rates, the end of the price slump and a slight increase in transaction volumes support this view. Because apartments remain in short supply, demand is there and rents are rising. On the other hand, however, construction costs continue to be high and too many federal, state and local authority requirements are still in place.

*Survey Period: 7 to 9 October

Opportunities in the logistics sector are seen by 23 per cent of respondents. On the one hand, demand for space from e-commerce providers, strong during the pandemic, has stabilised again after a brief dip. In addition, existing de-globalisation trends are being reinforced due to new geopolitical uncertainties. The associated shortened supply chains would also increase demand for new logistics properties, as companies require more production and storage space in Germany.

The office sector, in contrast, continues to face challenges. According to a study by the ifo Institute and property consultants Colliers, demand for office space in A cities is expected to fall by 12 per cent over the next few years and vacancy rates are rising. **“What has to happen for the office sector to become more attractive again?”** asked Berlin Hyp. Only 17 per cent want “more restrictive regulations around working from home”. As many as 54 per cent would “offer higher-quality properties with modern working environments” in order to draw more employees back to the office. The market proves them right, as top rents can still be achieved for attractive city centre locations, high-quality properties and good energy efficiency. A “revitalisation of the German economy” is also needed to really get the office sector going again, according to 49 per cent of those surveyed.

A development like this would also exert an impact on the overall outlook for the real estate industry. **“What could give the German property market a noticeable boost in the coming months?”**: this question yielded the responses that underline the industry’s dependence on external factors as follows. 62 per cent of respondents chose “Further interest rate cuts” (ECB!), 43 per cent opted for “Economic recovery” (economy!) and a further 40 per cent selected “Reducing bureaucracy and regulation” (politics!). But can these hopes be realised?

According to the German government’s economic forecast, Germany’s economic output is declining once again. Challenges such as neglected infrastructure, a shortage of investment, companies relocating abroad and a lack of innovative strength, as well as excessive bureaucracy and restrictive regulation, must be tackled urgently to get Germany’s economy and the real estate industry back on track. In contrast, the interest rates development is sending out positive signals. What was eagerly awaited a year ago is now a reality. The ECB’s first cuts have brought a certain level of predictability and stability to the market. Further interest rate cuts could lend the market even more momentum over the coming months.

That would be important, because there is still plenty of room for improvement in terms of transactions. This is where the banks come into play. Berlin Hyp closed the Trendbarometer survey by asking the real estate professionals: **“How do you currently perceive the willingness of banks to provide financing, especially in the area of new business?”** 55 per cent consider this to be “rather low”.

A look at the data from the Association of German Pfandbrief Banks (VdP) shows that lending to private households by member banks has increased again recently. Nevertheless, many market participants still perceive the willingness to provide financing in the commercial sector as restrained. However, the tentative revival of the transaction market gives hope that banks and customers will reach agreement more quickly in the future. Sascha Klaus: “We are open to new business if the general conditions are right. Location, property quality, rental status and energy efficiency are the decisive parameters for financing.”

About the Berlin Hyp Trendbarometer survey:

Berlin Hyp has been publishing the “Trendbarometer” expert survey for almost ten years now. Within the framework of this survey, real estate experts from Germany and abroad comment on the state of the real estate business and their expectations for its further development.

More than 400 real estate experts participated in the most recent survey, which was conducted in mid-October. For detailed results please see the attached document. You can find it on the Berlin Hyp website as well.

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