



Business Destination Germany 2022

Focus industry: Real Estate
Survey





Real Estate: a safe haven in turbulent times; new remote work environment; ESG and digitalization

Germany's reputation as a financial safe haven in times of uncertainty in Europe is appealing to investors. It was almost unaffected by the housing crash that hit most of Europe in the 2000s, meaning putting money into property is a solid investment decision. Local forces like availability of housing stock and changing demographics are what mostly affect the market. Since construction rates are low, demand is high and supply is not able to catch up. Mortgage rates are low but they are predicted to rise. Consequently investing right now would be beneficial and in contrast to many European countries, there are no special requirements or restrictions for foreigners interested in buying property in Germany.

The German real estate market as a whole also proved to be very resilient during the Corona pandemic. Its steady growth in 2020 was largely due to the development in the market of private and commercial residential real estate, as well as logistics real estate.

In contrast, major asset classes of non-residential buildings, in particular hotel, retail and office properties, showed mainly declining transaction volumes over the past year. They are unlikely to return to pre-crisis levels in 2021 either. In particular, the effects of home working on the demand for office space cannot yet be fully assessed. There are other negative and

positive issues at play. In addition to the question of just how much "remote" work there will be in the future, there is also the issue of reduced demand for space due to decentralized work, and whether education will be in person, in bricks and mortar establishments. However, it is quite possible that companies will use "home office" to reduce real estate costs and that savings will, therefore, be made on a single place of work.

In addition, the pandemic has forced real estate players to really understand the disrupted broader landscape. Technology is changing how office space is being used, and we are likely to see increasingly fluid movement between different locations and flexibility of choice in terms of from which space we wish to conduct our work.

The very positive development on the residential property market continues to be characterized by high demand for living space in Germany's metropolitan areas. In addition to the coveted inner-city locations, the regions surrounding metropolises are also increasingly moving into focus for those seeking accommodation. After the federal election at the end of September 2021, the composition of the coming federal government will be decisive – due to compromises sought in coalition deals – with regard to further regulation of the residential property market (for example, the introduction of a nationwide "rent cap").

"The real estate industry is packed with potential in today's rapidly changing world, from responsible and sustainable investing to emerging market growth, and from innovative technology solutions to evolving demographics and customer demands. The pandemic has catalyzed and accelerated several ongoing trends: the digitalization and decentralization of work; the transformation of physical retail; and the ecological transformation. The shift towards environmental, social and governance (ESG) considerations is becoming a major task for the real estate industry. Pioneers in ESG transformation can achieve positive returns over the long term, establish themselves in the competition, and strengthen their image and trust, as well as gain a foothold in the new world of work mainly driven by digitalization, demographic change and the dynamic safeguarding of ecological compliance that are becoming central tasks in the office space. These trends are expected to have a critical influence on how real estate markets will fare over the coming years. Understanding their longer-term impacts will be key to future success."



Dr. Hans Volkert Volckens
Partner, Head of Real Estate,
KPMG in Germany

The country's most important economic centers and real estate markets are Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart and their wider metropolitan areas. It is in these seven cities where the most office space is leased, with 50% to 55% of commercial transaction volume being accounted for in these places every year. A highly liquid real estate market means easy entry and exit. The German real estate market is very decentralized with the above stated top locations and a number of liquid markets in secondary cities. The offering is highly diversified (office, retail, industrial, residential, hotel, etc.) and available throughout the country. Germany enjoys a history of price stability and low yield volatility, especially in real estate hubs and is regarded by many institutions as a "safe haven" for investment. A high level of economic, social and political stability means low external risk. The occupier market is characterized by ongoing regional high demand from a wide range of sectors and businesses. From an investor's point of view, the German real estate market is particularly suitable for long-term and risk-averse investment.

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