European Real Estate Markets: Core Assets and Germany Coping Comparatively Well with the Crisis

- Real estate markets suffer no historic set-back as a result of the pandemic
- European office market rating: Berlin, Munich, Frankfurt among the top 10, with Berlin taking the lead
- US and Polish residential markets more attractive than Germany's residential investment market
- Affordable housing in the Netherlands a growth market interesting for international investors

Berlin, 18 June 2021. Which countries and segments will be of interest to real estate investors after the coronavirus pandemic? This was the question discussed during an online press conference attended by Prof. Dr. Felix Schindler, Head of Research at Warburg-HIH Invest, Karsten Jungk, Managing Director and Partner at WüestPartner Deutschland, Pepijn Morshuis, the CEO of Trei Real Estate AG, and Björn Kombächer, Head of Investor Relations at Engel & Völkers Asset Management.

The pandemic, rather than producing a slump of historic proportions, has generally increased the degree of differentiation. The transaction volumes on the European property markets remain on a historically high level despite the coronavirus pandemic. Especially countries in Eastern Europe (-14.1 percent) and the Nordics (-13.2 percent) registered only modest year-on-year decreases in transaction volumes in 2020. Real estate markets that have been harder hit, by contrast, include those in France (-35.8 percent), Italy (-31.9 percent) and particularly Spain (-52.2 percent). In Germany and the United Kingdom, the countries with the two most prominent real estate markets in Europe, the drop in transaction volumes was comparatively moderate at -22.8 percent and -17.4 percent, respectively. Across all countries, the steepest drops were registered in the hotel segment, whereas demand in the residential and logistics segments generally remained strong.

For the same reasons, their vacancy rates increased but moderately. Only in the Eastern European markets and London (City) did vacancy rates soar between Q1 2020 and Q1 2021, climbing from 7.2 percent to 11.8 percent. Similarly, vacancies in Paris increased from 2.0 percent to 4.5 percent, even though the absolute level remains very low. Other markets in Europe that proved stable, aside from German cities, include Vienna and Amsterdam as well as the Nordic markets.

Prof. Dr. Felix Schindler, Head of Research at Warburg-HIH Invest, offered the following outlook for the future market performance: “The investment pressure among investors, and with it the demand on the real estate markets, remains as high as ever in the absence of investment alternatives, although it is safe to expect a stronger differentiation in terms of micro- and macro-environments, types or use, and asset characteristics. We also expect demand for core products to go up because of the increasing risk aversion among investors, and because the market environment is defined by a heightened level of uncertainty. Generally speaking, real estate investments are likely to gain even higher prominence within investor portfolios, given the persistently low interest rate environment. Even the rise in inflation rates is unlikely to change that. As far as the returns on real estate investments go, it is in any case more important how the monetary policymakers will respond to increased inflation. The ECB, for one, has yet to adopt a clear position on the subject. I could easily see us heading for a period in which a permanently low level of interest will coincide with a higher rate of inflation than we saw during the past decade. I therefore believe that the capital will continue to flow into the real estate markets. The bond markets still represent no genuine alternative. Even if the returns they offer were to rise, it would be felt on the financing side only without prompting investors to make any major adjustments to their asset allocations.”

Three German Cities among Top 10, with Berlin Taking the Lead

A rating compiled by Wüest Partner after investigating 30 office locations in Europe, reached a similar conclusion. Based on various influencing factors, the survey analysed which cities coped comparatively well with the coronavirus crisis and may, in some cases, benefit from the accelerated pace of the structural change. Karsten Jungk, Managing Director and Partner at Wüest Partner, said: “Investors are adjusting their investment focus because of the consequences of the coronavirus pandemic for the real estate market. Our rating identifies those European metropolises where the outlook for successful real estate investments has improved.” The analysis considers 16 metrics, including the number and percentage of employees in forward-looking industries, the unemployment rate, the trend in office take-up and vacancy, as well as the prime rents.

“With Berlin, Munich and Frankfurt, no less than three German metropolises made the top ten in the overall ranking, the two top spots being claimed by the federal capital and the Bavarian state capital,” Jungk added. Next in line are Stockholm, Oslo, Amsterdam, Helsinki, Rotterdam, Zurich, Frankfurt and London.

According to the Wüest Partner ranking, Berlin is currently the most attractive city for investments in the office real estate market. “Germany’s first city is characterised by comparatively low vacancy rates and a quick absorption of new floor space coming onto the market. In addition, the share of forward-looking industries is well above average on the city's labour market while the office rental market offers a relatively large number of options for entry-level investments," Jungk went on to say. Munich, the runner-up, scored so highly because of its swift absorption of floor space, its healthy vacancy level, and its low unemployment rate. Stockholm, Oslo and Amsterdam offer investors attractive yield rates of more than 3.3 percent and 3.2 percent, respectively. Stockholm shows a large share of forward-looking industries, which also claim market shares of over 20 percent in Oslo and Amsterdam. In Frankfurt am Main, which placed ninth in the ranking, the forward-looking industries account for 19.2 percent of the market, a share nearly as high.

Residential Real Estate Markets in the US and Poland are Attractive Alternatives

Trei Real Estate is an internationally active company that develops residential real estate in Germany, Poland and the United States. Pepijn Morshuis, the CEO of Trei Real Estate, said: "An international comparison reveals that there are several residential real estate markets more attractive than Germany's residential investment market. This is particularly true in regard to yield rates. For instance, prime yields of residential real estate equal 5.25 percent in Poland and 5.5 percent in the United States, more than twice as high as in Germany, where the going rate is 2.5 percent."

In Poland, however, an open housing market is only just emerging. Morshuis elaborated: "As a result, there is currently a wide gap between supply and demand. The supply side remains small, with demand exceeding it by far. Many investors currently enter the market with the rationale of investing early on in the cycle and buying at moderate prices. Another important difference to Germany: The body politic supports the development of new-build housing. This is sadly not always the case in Germany."

If you take a look across the big pond, you will find that the US housing market offers high yield rates. But it also has its own set of challenges. Morshuis, the head of Trei, commented: "Lease terms are very short here, and tend to be signed for fixed terms of twelve months. The high tenant churn rate translates into a high management effort for residential real estate. The opportunities that present themselves here are attributable to demographic growth and the fact that the rental market is largely unregulated."

Growing Housing Shortage in the Netherlands

Engel & Völkers Asset Management considers the Dutch housing market particularly interesting. "So far, the Dutch economy has coped splendidly with the coronavirus pandemic. In the residential real estate sector, we have identified three main drivers for a sustained upward trend: the short supply in residential accommodation, especially of the affordable type, the demographic growth, and the stable rent performance," said Björn Kombächer, Head of Investor Relations at Engel & Völkers Asset Management. As it is, the Netherlands have a shortfall of 300,000 residential units – a challenge that will be exacerbated by the fact that the country is expected to add another million to its population total by 2035. Young people have a particularly hard time finding suitable accommodation, with roughly 268,000 households already affected.

Unlike in Germany, only a small fraction of the available rental listings are entirely without regulatory constraints. The new-build housing sector breaks down into social housing that is earmarked for low-income groups, the rent-controlled housing market, which is also intended for residents with low income but also for students, and the open market where privately owned flats are offered in the mid-price segment or in the free sector. All of the rents are inflation-indexed, and rental growth is possible in the medium-price segment and in the open-market segment, making these attractive for investors. Engel & Völkers Asset Management aims for a blend comprising all of the segments.

Press contact Wüest Partner Deutschland
c/o RUECKERCONSULT GmbH
Susanne Franz
0049 (0) 30 2844987-64
franz@rueckerconsult.de

Press contact Warburg-HIH Invest
c/o RUECKERCONSULT GmbH
Jan Schweiger
0049 (0) 30 2844987-65
schweiger@rueckerconsult.de

Press contact Trei Real Estate
c/o RUECKERCONSULT GmbH
Daniel Sohler
0049 (0) 30 2844987-49
sohler@rueckerconsult.de

Press contact Engel & Völkers Asset Management
Christiane Rehländer
0049 (0) 15118993537
christiane.rehlaender@engelvoelkers.com

About Engel & Völkers Asset Management

EV Asset Management GmbH, license partner of Engel & Völkers Marken GmbH & Co. KG, is a bank-independent real estate investment and asset manager that covers the entire real estate value chain from acquisition, valuation, financing and management to exit. The company is fully integrated into the global Engel & Völkers licence partner network. It cooperates with various partner companies and thus has exclusive access to interesting real estate projects and local know-how. Together, they transform their deep understanding of real estate markets into investment opportunities for institutional investors - across Europe.

About Trei Real Estate

Trei Real Estate GmbH, a German real estate company with registered office in Düsseldorf, acquires, develops and manages customised and sustainable residential and retail properties. A wholly-owned subsidiary of the Tengelmann group, it concentrates on real estate investments and developments in Germany, Poland, the Czech Republic, Slovakia, Portugal and in the United States within the framework of a long-term strategy. In addition to its proprietary portfolio worth c. 1.2 billion euros, Trei Real Estate GmbH has c. 1.2 billion euros worth of developments in the pipeline. In Poland, the Czech Republic and Slovakia, the company develops, raises and lets retail parks under the Vendo Park brand. Also active on Germany's housing market, e. g. in Berlin, Trei currently develops residential quarters combined with commercial premises as well as student apartments under the Quartillion brand. The company's residential activities outside Germany include development projects in Poland and in the United States. For more details, go to www.treirealestate.de and www.trei-wohnen.de.

About Warburg-HIH Invest

Warburg-HIH Invest Real Estate (Warburg-HIH Invest) is one of the leading investment managers for real estate in Germany and elsewhere in Europe. We find, develop and control real estate and investments under a forward-looking approach in the best interest of our clients. Decades of experience, close proximity to real estate markets and tight networking enable us to identify real estate opportunities and to act on them quickly in the right market cycle.

Around 220 institutional clients entrust their investments to Warburg-HIH Invest. They benefit from the structuring, product development, property management and market development specialists we make available for the purpose of developing just the right investment solutions for them.

Warburg-HIH Invest maintains a presence in ten different locations across Europe. As part of the HIH-Group, we cover the entire real estate investment value chain with in-house capacities. The early recognition of market changes, the implementation of regulatory requirements and forward-looking digital management are part of our corporate philosophy. At the moment, we have 13.3 billion euros worth of assets under administration in 78 investment funds.

More information is available on the company's website at: www.warburg-hih.com/en

About Wüest Partner

Wüest Partner is an innovative and independent service company in the real estate industry. Since 1985, we have been using a combination of expertise, data and digital solutions to create a well-founded basis for decision-making. We lead the industry with comprehensive services in the areas of valuation, consulting, data & analysis, products, software and education. Owned by 23 partners with over 300 employees at 11 locations in Europe - in Germany in Frankfurt am Main, Berlin, Hamburg, Munich and Düsseldorf. To learn more about new perspectives and sustainable value creation, visit www.wuestpartner.com or @WuestPartner on Linkedin and Twitter.