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DEUTSCHE IMMOBILIEN-PARTNER

Markets and Facts

Developments and Trends in the German Real Estate Market 2024


The Markets for

- Office Space
- Retail Space
- Real Estate Investments
- Logistics Space


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“Difficult times drive us to develop determination and inner strength.”

Dalai Lama

Dear reader,


Henrik Hertz

A year ago, I wrote here about upcoming complex structural changes, changes on the market and related challenges for 2023. In reality, real-estate markets were paralysed in a way that significantly slowed down market activities. Then, at the EXPO REAL 2023, we saw: We have not overcome the crisis yet. But it is encouraging, given that the vast majority of participants exuded determination in spite of the clearly more difficult overall conditions and had many ideas to tackle the issues.

And there are, indeed, positive signs. For example, inflation is slowing, with falling interest rates for construction loans. The ECB announced further interest rate cuts for this summer. This will favour the prospect of stabilisation of the price level of market-oriented properties and, in turn, stimulate the market gradually.

If the framework conditions for the acquisition of private property and investments improve again, this will be in the joint interest of all market players: In view of a global environment with wars and warlike disputes and socio-political tensions, in Germany as well, sustainable real estate is a reliable good and therefore a reliable asset, irrespective of further developments.

The careful selection and evaluation of properties based on independent expertise and knowledge of the market are important for successful property decisions.

This is why the **DIP Deutsche Immobilien-Partner (German real estate partners)** have been among the first addresses for decades across the country – the companies Aengevelt and Hertz for over 114 and 124 years respectively. With a total of 15 partners and about 400 real estate experts from various professional areas, DIP supports sellers and buyers, landlords and tenants – these experts act interdisciplinary and without external instructions, thus being completely independent from corporate interests.

The establishment of DIP in 1988 was the answer to the need to connect the highly diverse regional markets through the supra-regional cooperation of service providers in the real estate industry, for the benefit of the customers. This has not changed, on the contrary! Every DIP customer can benefit from the high added value created by our **professional networking,** including our preferred partners and by the DIP philosophy.

Every crisis brings new challenges and opportunities! On that note, we, the DIP Partners, are looking forward to every meeting with you. No project is too complex for us – in coordination with you, we will complete your tasks with competence and motivation, building on our decades of independence and industry experience – even and especially in demanding times.

Your

Henrik Hertz
Spokesperson of the DIP Partners

Deutsche Immobilien-Partner

An attractive group of specialists

Eight top property services providers with more than 25 branch offices are affiliates of the nationwide DIP group. Each and every partner is experienced at its location, linked through networks, superbly integrated and has an excellent reputation.

DIP

Our cooperation is based on strong trust and builds on the foundations of professional qualification and active presence on the market.

In order to offer first-rate consideration of the interests of Dutch investors in Germany and these of German investors in the Netherlands, the DIP network has been strengthened by the renowned company **FRIS, Amsterdam,** since August 2017 as Preferred Partner. Since fall 2019, **Logar & Partner Immobilientreuhand GmbH, Vienna,** has supported the DIP association in order to meet the interests of Austrian investors in Germany and also to take into account these of German investors in Austria.

History

In 1988, the increasing supra-regional tasks, especially in the sectors "investment" and "commercial letting", led the befriended and owner-managed, long-established companies Aengevelt (est. 1910) in Düsseldorf, Arnold Hertz (est. 1900) in Hamburg and Ellwanger & Geiger (est. 1912) in Stuttgart to establish a group. The goal: Important and interesting locations were to be closely linked by the accession of renowned real estate agents.

It was the right solution to the question of how the requirements of national and international investors, acting across regions, could be fulfilled!

The high level of renown of the three founding companies was to give other selected partners/companies in other regions the opportunity to open the nationwide property market to their regional clients as well. The collection of regional market data allowed for the publication of the market report "Markets and Facts", a pioneering achievement in the industry, which compared all relevant property markets in Western and Eastern Germany for the first time and the 36th annual issue of which you are now holding in your hands. Ever since then, it has been considered to be one of the most important market analyses, given its comparison of market data from Western and Eastern German cities, bigger and smaller ones alike.

The following always applies: Any client co-attended by a partner enjoys deepest respect, has utmost priority and experiences the reliable consultation and transaction participation he may naturally expect and is used to receiving from his regional property consultant.

Our **"Code of Conduct"** is the basis of our success and the corresponding unique advantages for our clients:

- **More trust:** Each partner acts honestly and in a responsible manner in all transactions.
- **More competence:** Each partner utilises its good reputation and offers a high-quality service.
- **More quality:** With their market position at the respective locations, the partners guarantee the assured high quality standard.

A unique characteristic of the DIP Group is the partnership with the following well-known companies as Preferred Partners which complement the holistic scope of real estate with their services:

- **Allianz Partners Deutschland GmbH – Allianz Handwerker Services –** Aschheim (near Munich)
- **EBZ Business School GmbH –** University of Applied Sciences, Bochum
- **GÖRG Partnerschaft von Rechtsanwälten mbB,** Cologne
- **Olivier Versicherungen,** Monschau
- **TÜV Rheinland Industrie Service GmbH,** Cologne

Joint values are the best basis for your success!

More ideas, more competencies, more opportunities for the sale or acquisition of your property most effectively complement DIP core competencies for you!

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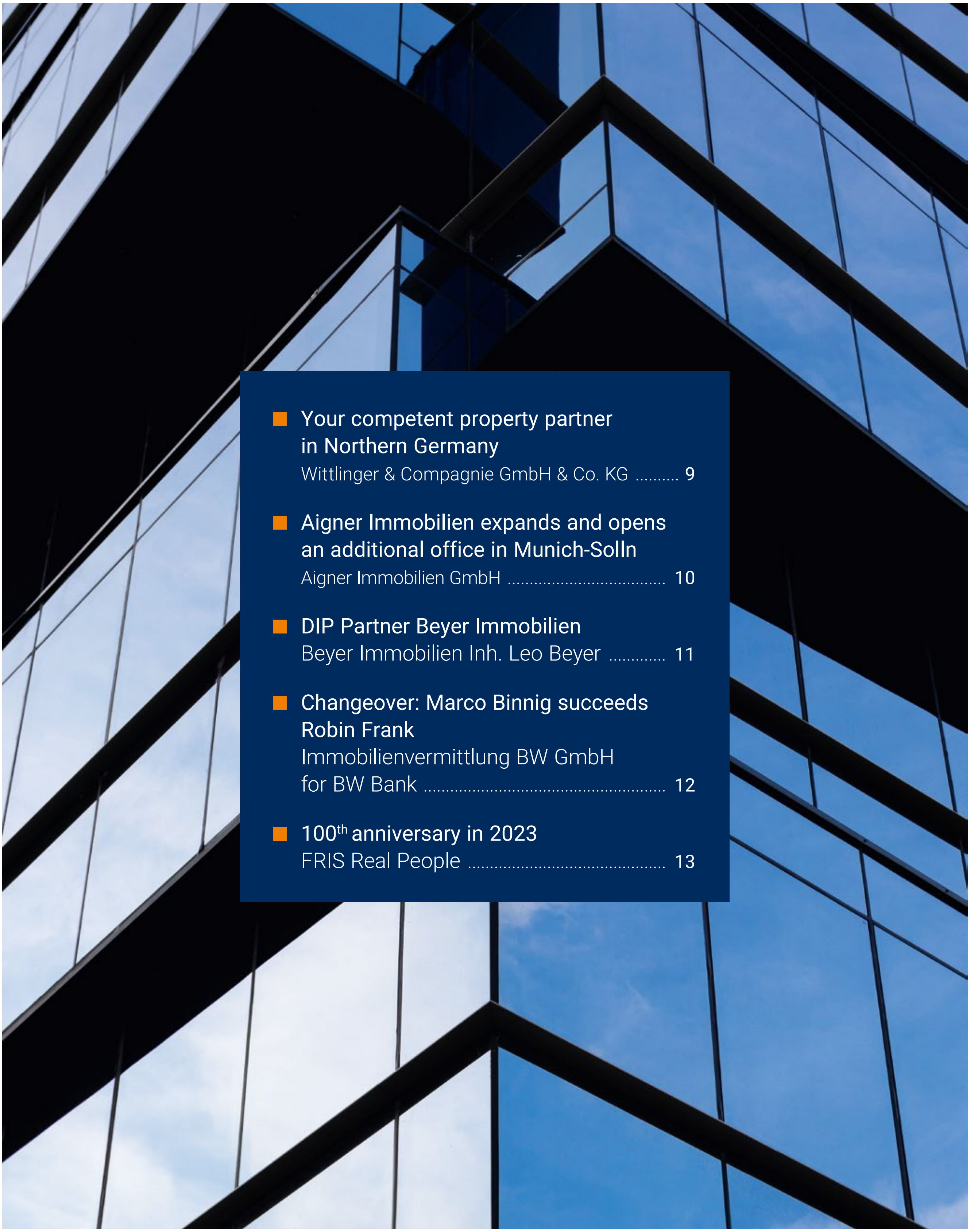
DIP News



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Your competent property partner in Northern Germany

Wittlinger & Compagnie GmbH & Co. KG

Both Managing Directors Lisa-Marie Wittlinger and Jeanette Kuhnert

Wittlinger & Co offers you tailored real-estate services for buying, selling and letting of commercial, investment and private residential properties.

In 2020, after 36 successful years on the real estate markets in Hamburg and Northern Germany, the real estate arm of Stöben Wittlinger GmbH was spun off and became Wittlinger & Co.

The founders of Wittlinger & Co, Jeanette Kuhnert and Lisa-Marie Wittlinger, continue the business at the main location in Hamburg with a fresh spin brought by the next generation.

The 7-strong team of Wittlinger & Co specialises in marketing commercial and investment real estate of all asset classes throughout Germany and in letting commercial premises of all kinds in the Hamburg metropolitan region. Selling and letting private residential properties have also been some of the core competencies since the company's foundation and is being expanded constantly.

As part of the Wittlinger Group, Wittlinger & Co offers comprehensive expertise in supporting project developments, creating sales concepts as well as in asset and portfolio management.

Services

- Buying/selling all asset classes nationwide
- Letting of commercial premises of all kinds in the Hamburg metropolitan region
- Selling and letting private properties
- Supporting project developments
- Creating sales concepts
- Asset and portfolio management

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New office with showroom atmosphere

Aigner Immobilien expands and opens an additional office in Munich-Solln

Aigner Immobilien GmbH, the leading owner-managed real estate company in Greater Munich, has opened another office in Munich's Solln district, growing its office network to nine locations and continuing to expand its business.

Elegant, high-end and featuring an atmospheric colour concept is how the new location of Aigner Immobilien GmbH at Frans-Hals-Straße 2 in Munich-Solln presents itself.

The ninth office of the real estate company does not only offer customers the opportunity to learn more about offers and services, like at any other of its offices, but with its showroom atmosphere it also serves as a forum for special events and as a meeting point.

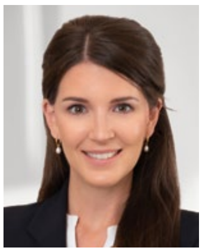
In addition to the system headquarters in Sendling, doubling as a conference and training centre, the company maintains office locations in Munich's districts of Nymphenburg, Schwabing, Bogenhausen and in Lehel, where it regularly hosts lectures and major events under the name *münchner immobilien forum.* In addition, Aigner Immobilien is represented around Munich in Pullach, Starnberg and Dachau.

"We are very pleased to be opening another office in Munich after one of the most turbulent and challenging years the real estate market in our state capital has ever experienced. For our customers in the south of Munich, the new opening in Solln now means double of Aigner competence," says Thomas Aigner, owner and managing director of Aigner Immobilien GmbH.

This competence is in particular demand at the moment: "There is a lot of uncertainty amongst owners and property prospects. Especially now, people need a highly professional and personal consulting option. This is what Aigner Immobilien GmbH has been standing for for over 30 years."

Impressions of the new office can be found here: https://aigner-immobilien.de/immobilienmakler-solln
You can find an overview of all Aigner Immobilien GmbH offices here: https://aigner-immobilien.de/unsere-standorte

Thomas Aigner
Managing Director and Owner



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DIP Partner Beyer Immobilien

Beyer Immobilien

"We want to create happy situations between people." This basic idea has been the basis for our actions in the tripoint area for more than 30 years.

In addition to the "traditional real estate services" like selling residential and commercial properties, we are also very successful in mediating between difficult parties and in achieving pleasing outcomes for all involved in the end. We don't know just the market – **we also know the people and their needs in our region.**

Our passion for real estate has expanded meaningfully with growing expertise:

- Selling/letting **residential properties** and **land** (Beyer Immobilien, owner: Leo Beyer)
- Selling/letting **commercial real estate** and **capital investments** (Beyer Immobilien, owner: Leo Beyer)
- **Real estate financing** (Beyer Finanz GmbH)
- Project planning for **construction projects** (Beyer Wohnbau GmbH)

As a top real estate agent in Freiburg, awarded by Capital Magazin, we offer tailor-made solutions in the tripoint area Offenburg – Kaiserstuhl – Lake Constance. This recognition confirms our team of 15 and motivates us to continue to set the highest standards in the real estate industry.

On behalf of our clients base consisting of more than 28,000 potential property purchasers/tenants, we manage qualified requests for flats, houses and mansions at purchase prices of up to € 6 million. Regarding commercial real estate, apartment buildings and capital investments, we receive enquiries with investment volumes of up to € 150 million. **Beyer Finanz GmbH** has single-handedly brokered individual financing concepts with an investment value of € 15 million.

Our specialists for commercial real estate and real estate investment draw on the know-how and support of over 60 civil engineers, structural engineers and physicists from our office community as well as on in-house real estate financing partners and project developers.

We are very successful in mediating between difficult parties and in achieving pleasing outcomes for all involved in the end.

With **Beyer Wohnbau GmbH,** we implement our own project developments with high demands on building quality and architecture together with long-standing trusting partners. Our office community makes architects, civil engineers and construction managers available and guarantees high standards and creative ideas, with architecture and people at the heart.

We are very happy to be a DIP Partner and back exchange and joint growth. Here, too, our partners take centre stage as people who want to create happy situations across the region.

Leo Beyer
Owner and
Managing Director

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Changeover: Marco Binnig succeeds Robin Frank

Immobilienvermittlung BW GmbH for BW-Bank

Since 1 October 2023, Marco Binnig has been the new Managing Director of Immobilienvermittlung BW GmbH (BW-Immo) for BW-Bank. In this role, he is responsible for the private and commercial real estate services of the bank around Stuttgart and Lake Constance. His experienced predecessor, Robin Frank, worked in the real estate market for more than 35 years, including more than 23 years in the real estate services department of LBBW/BW-Bank. After a smooth transition period, he is retiring in March 2024.

Marco Binnig has been rising through the ranks of both the banking and the real estate business. One of his important steps was working as a real estate division manager (brokering and financing) at a large cooperative bank for several years until 2022. Most recently, the 46-year-old then headed the sales and marketing unit of the nationwide Wüstenrot Immobilien GmbH in Ludwigsburg.

Immobilienvermittlung BW has had deep roots in the economic region Mittlerer Neckar and Lake Constance for decades and has extensive market experience. In 2011, the real estate services business of BW-Bank finally became a fully-owned subsidiary of the bank. The tasks of BW-Immo staff include all activities related to selling real estate – from valuation of the property, carrying out viewing appointments, support with purchase price negotiations, preparation and participation in the notarial appointment and handover of the property.

Challenging environment on the real estate market

"Due to the rapid rise of interest rates and the regulations regarding energy-efficient renovations, times on the real estate market are currently challenging," explains Robin Frank when handing over his duties. "But it is precisely when complexity is increasing like this that qualified and competent advice is highly appreciated by clients. It pays off here that all our employees have many years of market experience and can thus provide the best advice." Both Frank and Binnig remain confident despite the current disruptions on the real estate market. The main reasons for selling a property are often inheritance or divorce. Both are independent of the economic cycle. "In a region with a strong economy, driven by many medium-sized 'hidden champions' and some global corporations, demand on the real estate market will always be greater than supply," adds Frank.

Good synergies between real estate services and financing

BW-Immo and BW-Bank's Real Estate Financing division maintain close links – both in terms of central units and locations. This cooperation benefits both those looking for a home and property sellers. As a result, the real estate advertisements in the branches are always met with great interest. Of course, clients can also find personalised advice on individual, tailor-made construction financing.

Robin Frank, Managing Director: Retired after 35 years in the real estate industry

Marco Binnig: Successor and new Managing Director

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100^{th} anniversary in 2023

FRIS Real People

Since 1923, family-owned FRIS has grown into one of the largest independent property-managers in the Netherlands. FRIS is also a household name for tens of thousands of individuals and companies in the Greater Amsterdam area thanks to our total service provision as residential real estate agent/marketing agent, commercial real estate agent, administrator, surveyor, appraiser, insurance intermediary and recruiter.

In the anniversary year 2023, FRIS celebrated its centenary grandly, looking back with due pride to the previous FRIS generations together with the many loyal clients to whom FRIS is fully committed every day.

Services

The Real People at FRIS provide a comprehensive service for a wide range of clients – not just entrepreneurs and end-users of commercial real estate, but also investors, insurance companies, project developers, building companies, banks and accountancy firms. The Real People at FRIS work in the area of investments both nationally and internationally.

Commercial Real Estate

Naturally, you can expect all the services you need from a commercial real estate agent. What sets FRIS apart from the major international players is our local knowledge and flexibility. And what sets FRIS apart from other local real estate agents is the breadth of the FRIS organisation, our experience in Amsterdam and the greater Amsterdam Area, our strong focus on the SME sector, Amsterdam Southeast, Duivendrecht, Amstel, the banks of the IJ, and Diemen.

Deep and wide-ranging market knowledge

Our broad real estate organisation, large network and own knowledge centre mean we are able to draw on impressive resources in terms of knowledge and data. Thanks to this edge in knowledge, we are able to sell or rent out real estate with targeted marketing. Clients can also rely on our proactive approach, expertise, local market knowledge and large network when it comes to searching for and finding a suitable location for their firm.

In short, prospects can come to us for:

- Renting out/selling commercial property
- Finding commercial property to rent/buy
- Investment brokerage
- Contract advice and negotiations
- Market reviews

Hans Peter Fries
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EXPO REAL 2023

Dr. Wulff Aengevelt: "Intensive talks about the crisis at EXPO REAL"

Booth of DIP Deutsche Immobilien-Partner at the EXPO REAL 2023

"With 1,850 exhibitors, this year's well-attended real estate fair EXPO REAL in Munich was back to the previous year's level and remained the most important meeting place for the industry in Germany. Were we at the beginning of the crisis in 2022, the industry was now in the midst of it. The need for direction and discussion was correspondingly great.

> **"Were we at the beginning of the crisis in 2022, the industry was now in the midst of it. The need for direction and discussion was correspondingly great."**

The main topics included, again, housing, offices, logistics in combination with issues like sustainability/ESG, interest rate and return development and the impact on the entire market. As usual, our company organised panel discussions with the trade visitors at the fair and real estate experts joining via live stream.

In the office segment, increasing issues around letting are emerging regarding demand for properties that have not yet been optimised in terms of energy efficiency, especially outside the city centre locations. This is driven by a general further significant increase in user demands, especially with regard to sustainability and ESG criteria, location quality, for example with regard to infrastructure features, as well as flexible usage options in line with increasing demands of modern New Work concepts. Against this backdrop, we are forecasting a quality-induced relocation dynamics.

As a result, corresponding retrofitting is required, in particular for affected office properties beyond the top office locations. If this cannot be implemented in a technologically and economically sensible manner, a conversion to urgently needed housing is increasingly offering a new perspective in view of the rising demand for micro-flats and similar.

In the housing segment, the package of measures proposed by the Federal Government was the subject of intensive discussion. There was agreement that although the direction is right on some points, efforts are not sufficient to bring about the overdue turnaround to provide a sufficient and

"There are international investors in particular who are the first to act counter-cyclically in Germany. [...]
When the German real estate market starts up again, they want to be the first to restart with smart purchases."

sustainable boost to the construction of new housing. Especially because many investors are deeply uncertain as to which cost-driving measures politicians might come up with in the future. In the medium term, therefore, no relaxation is expected, but rather there is fear of further worsening.

Logistics properties continue to enjoy great popularity. Meanwhile, demand-driven supply remains scarce here, too. Added to this is the growing demand for inner-city logistics locations for delivery bases and last mile hubs. Given the competition from other users such as discount stores and specialist markets, higher rents and purchase price levels in cities, limited availability of premises with simultaneously sufficiently large outdoor areas, required energy supply for electric mobility and often high approval obstacles of municipalities, the logistics and service companies operating in this area are facing massive challenges.

On the investment market, too, the classic criteria are decisive for the saleability of a property. The achievable purchase price multipliers are strongly influenced by sustainability aspects or the possibility of corresponding retrofitting, location quality and similar. Generally, and in view of renewed high inflation, properties in large cities that meet demand remain the focus of purchasing power conservation.

However, the pricing phase is still ongoing (for a while yet?) in all asset classes, mainly due to the evolution of lending rates. This continues to slow down transaction activities considerably.

However, there are international investors in particular who are the first to act counter-cyclically in Germany. This is not due to a different market assessment, but due to longer global market experience: When the German real estate market starts up again, they want to be the first to restart with smart purchases.

EXPO REAL has made it clear: We have not overcome the crisis yet. But it is encouraging, because the vast majority of participants exuded optimism regardless of the difficult conditions and were solution-oriented instead of complaining. That demonstrates potential."

Dr. Wulff Aengevelt
Managing Partner
Aengevelt Immobilien GmbH & Co. KG

Overviews of markets

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The market for office space

Overview

Office space market

Leased and owner-occupied take-up in sqm	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt a. M.	Freiburg
2023	540,000	88,000	94,000	282,000	112,000	365,400	29,000
2022	770,000	90,000	85,000	330,000	115,000	384,300	35,000
2021	849,000	105,000	120,000	324,500	85,000	449,000	24,000
Top rent in €/month							
2023	45.00	15.20	20.00	40.00	18.00	46.50	19.00
2022	43.00	14.00	18.50	31.00	16.80	45.50	17.50
2021	41.00	14.00	16.00	28.50	16.50	45.50	16.40
Average rent in €/month							
Entire city 2023	27.00	9.00	13.00	17.00	11.00	23.00	12.00
Inner-city 2023	29.00	10.50	16.00	25.00	13.00	27.00	15.00
City periphery 2023	23.00	8.40	11.50	19.00	10.00	18.50	12.50
Suburbs 2023	18.00	7.50	9.50	12.50	8.00	16.50	10.50
Vacancy, absolute in sqm							
End of 2023	910,000	178,000	85,000	800,000	208,000	1,050,000	29,000
End of 2022	670,000	132,000	90,000	750,000	199,000	940,000	25,500
End of 2021	689,000	115,000	80,000	670,000	165,000	1,030,000	21,000
Vacancy rate (%)							
End of 2023	4.3	5.6	3.3	8.5	6.8	9.1	2.9
End of 2022	3.2	3.8	3.5	8.1	6.5	8.2	1.7
End of 2021	3.3	3.3	3.2	7.2	5.4	8.9	1.4
Forecast							
Projected take-up in 2024	→	↘	→	↗	→	→	↗
Projected top rent – end of 2024	→	→	↗	↗	↗	↗	↗
Projected average rent – entire city – end of 2024	→	→	↗	↗	↗	↗	↗
Projected vacancy, absolute – end of 2024	→	↗	→	↗	→	↗	↘

As of 31 December 2023

	Hamburg	Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
	444,000	82,000	40,000	229,000	120,000	16,000	455,000	91,000	120,000	136,644
	551,000	98,000	50,000	311,000	130,000	24,000	760,000	95,000	280,000	202,000
	480,000	115,000	50,000	310,000	167,000	32,600	590,000	80,000	143,000	221,000
	36.00	19.00	15.00	33.00	19.00	14.80	49.50	18.00	32.00	40.00
	35.00	18.00	14.50	27.50	17.50	14.00	43.00	17.00	30.00	40.00
	32.00	17.00	13.50	27.00	16.50	13.50	41.00	16.00	25.00	40.40
	20.00	12.50	11.50	18.50	12.50	8.75	23.50	12.00	14.50	24.50
	21.00	15.10	12.00	21.00	13.00	10.90	28.00	13.50	18.50	29.00
	18.20	11.20	11.00	15.50	12.00	8.80	21.00	11.50	13.50	25.00
	14.50	8.50	10.00	10.00	8.50	6.50	12.50	10.00	12.50	18.00
	569,000	225,000	120,000	298,000	187,000	58,000	1,350,000	209,000	320,000	427,800
	503,000	160,000	100,000	239,000	158,000	61,500	1,100,000	172,000	320,000	420,000
	530,000	178,000	100,000	255,000	170,000	68,000	930,000	138,000	255,000	372,000
	4.0	4.7	6.0	3.7	4.7	5.5	6.1	5.4	4.0	6.9
	3.7	3.5	4.0	3.0	4.1	5.9	5.0	4.5	3.9	7.2
	3.9	3.9	4.0	3.2	5.0	6.5	4.4	3.6	3.2	6.0
	↘	→	→	→	→	↗	→	→	→	↗
	→	↗	→	↗	↗	↗	→	→	→	→
	→	→	→	↗	↗	↗	↘	→	↘	↗
	↗	↗	→	↗	→	↘	↗	↗	↗	↗

The market for retail space

Overview

Retail space market

Top rent in €/sqm	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt a. M.	Freiburg
Absolutely prime location (ground floor < 100 sqm)*	250	111	85	275	75	270	130
Prime inner-city location (ground floor < 100 sqm)*	80–110	70–110	35–85	130–250	40–75	140–270	50–100
Secondary inner-city location (ground floor < 100 sqm)*	25–50	25–40	13–21	40–60	15–25	80–130	25–50
City periphery/centre of a city district (ground floor < 100 sqm)*	25–80	12–18	10–15	15–30	12–23	16–40	15–25
Discounter/specialized big box store – non-food	12–15	6–12	6–12	10–16	8–15	15–25	10–20
Discounter/specialized big box store – food	15–25	7–17	8–15	10–18	8–18	14–18	10–20
Forecast 2024							
Development of rents: prime location	→	→	→	→	→	↘	→
Development of rents: secondary location	↘	→	→	→	↘	↘	→
Demand for retail space in prime locations	→	↘	↘	→	↘	→	→
Take-up of retail space in prime locations	↘	↘	↘	→	↘	↘	→

* = typical market range
n. a. = data not available

Hamburg	Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam*
245	165	85	220	110	49	340	130	200	2,800
190–245	100–165	30–90	125–220	80–110	20–32	200–340	75–130	40–100	240–400
40–60	30–70	20–55	60–100	15–30	17–22	70–125	50–70	15–50	180–220
35–55	14–36	15–40	15–35	5–10	7.5–11	30–70	18–35	5–20	460–1,037
10–18	6–12	n. a.	10–15	5–10	6–11	n. a.	10–20	10–15	n. a.
10–22	8–14	n. a.	10–16	5–10	6–11	10–30	10–20	12–18	n. a.
→	→	↘	→	↗	↘	→	→	↘	→
→	→	↘	→	→	↘	↘	→	↘	→
→	→	↘	→	→	→	→	→	↘	→
→	→	↘	→	→	→	→	→	↘	↘

* data p. a.

The market for building land and investments

Overview

Land for office and business buildings (city locations)

The market for land – purchase prices in €	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt a. M.	Freiburg
Commercial land*	100–500	100–300	50–360	200–450	70–175	250–550	180–275
Land for office and commercial buildings (city locations)	3,500–12,000	1,500–6,000	590–4,900	2,900–49,000	800–2,000	5,500–39,000	1,400–24,000
Land for residential buildings (good locations)	1,500–5,000	800–1,600	550–1,600	530–2,100	370–750	850–3,500	1,200–4,000
Commercial investment – peak multipliers (net)							
Commercial building	22.0	20.0	23.0	22.0	19.0	27.0	22.0
Office building	23.5	19.0	18.0	22.0	20.0	24.0	23.0
Self-service shop/specialized retailer/ specialized big box store	17.0	17.0	15.0	16.0	15.0	18.5	16.0
Industry/commercial/logistics	18.0	18.0	14.5	18.0	17.0	19.5	18.0
Commercial investment – typical initial multipliers							
Commercial building	16–20	13–18	12–18	15–19	15–19	14–18	15–20
Office building	16–20	14–19	11–17	15–18	15–18	13.5–16	17–22
Self-service shop/specialized retailer/ specialized big box store	12–15	12–15	10–14	12–15	11–14	12–14	12–16
Industry/commercial/logistics	12–14	12–17	8–13	10–15	11–15	11–14	11–15
Residential investment – typical initial multipliers							
Multi-family house – new building (standard fittings)	20–24	17–21	19–24	20–23	15–20	20–24	19–25
Multi-family house – inventory (standard fittings)	16–21	15–20	11–20	15–21	12–17	16–20	17–22

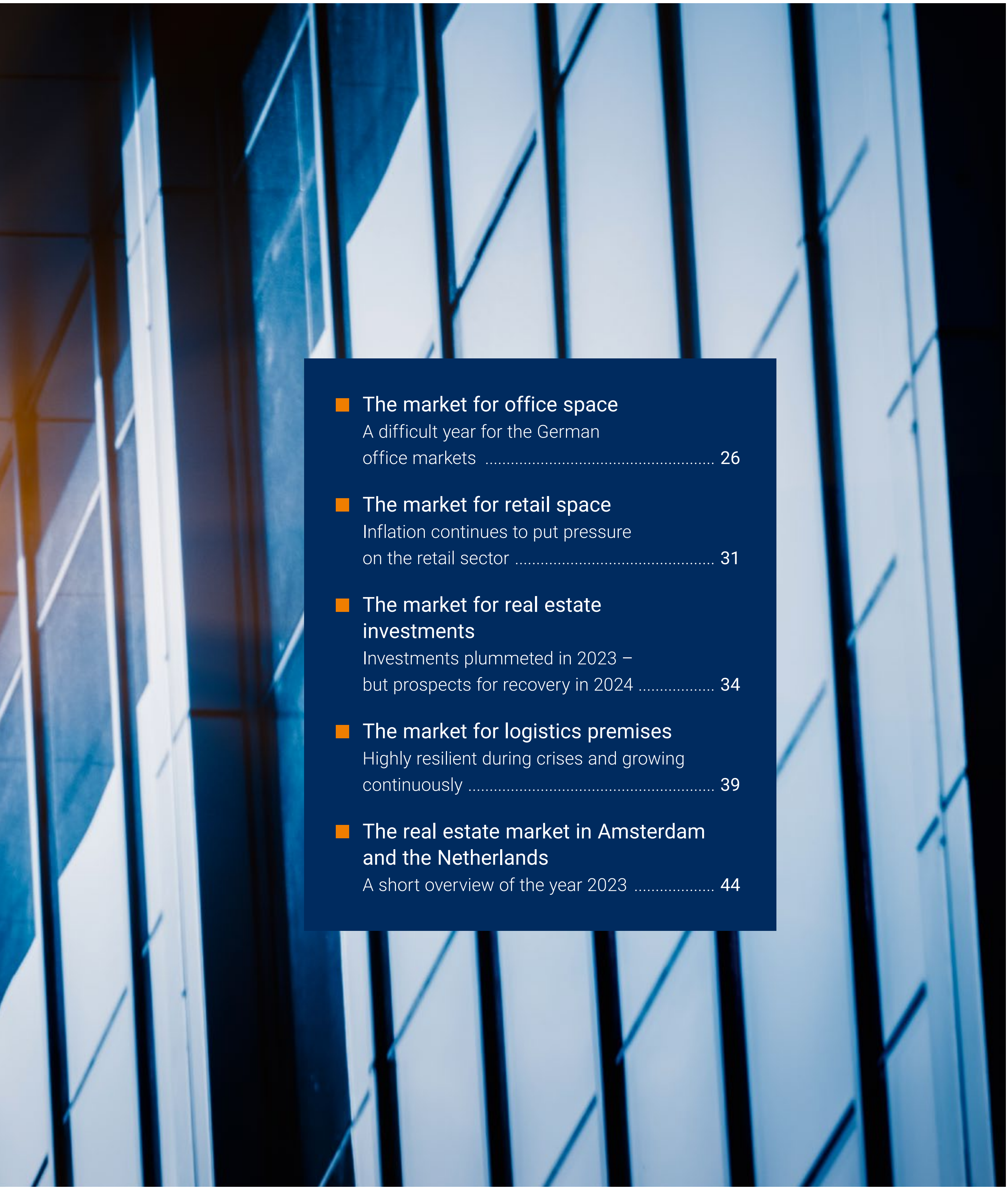
n. a. = data not available

* These prices are for a developed plot in higher-quality industrial areas or for commercial areas that are reached easily (excluding old industrial or production sites in city centres); usually. with a floor space index of 0.6 to 1.1.

Multiplier = net multiplier (final purchase price to annual net rent)
Top multiplier = highest multiplier to be achieved in the market
New building = completion within the past two years

	Hamburg	Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
	150–360	90–275	150–280	150–275	50–360	30–110	550–3,200	170–410	250–700	1,300–5,500
	4,500–33,000	1,500–7,500	1,500–7,000	1,000–25,000	2,400–4,200	350–850	3,500–8,500	4,000–18,000	4,000–7,500	3,500–9,600
	1,800–6,500	750–1,200	550–1,200	800–1,800	1,000–2,200	200–400	2,250–5,000	1,000–2,000	1,500–3,600	3,200–6,700
	24.0	21.0	25.0	23.0	21.5	19.5	34.0	20.0	22.0	30.0
	25.0	20.0	18.0	22.0	20.0	19.5	30.0	19.0	20.0	30.0
	19.0	18.0	13.0	17.0	18.0	16.0	22.0	14.0	18.0	24.0
	20.0	19.0	14.0	19.0	21.0	18.5	24.0	15.0	16.0	22.0
	17–20	15–20	15–25	17–21	15–21	15–17	22–30	17–20	18–22	n. a.
	17–20	14–20	11–18	17–21	13–19	15–17	23–28	17–19	18–20	n. a.
	12–16	11–15	11–13	11–15	11–17	11–13	15–20	10–14	13–18	5–7
	13–17	11–16	9–14	12–16	10–18	11–16	15–22	10–15	13–18	6–10
	22–24	16–21	25–30	21–25	20–23	19–22	30–40	19–23	20–22	4–4.5
	21–24	15–20	23–30	18–23	14–20	15–18	26–39	18–22	18–20	4–5.5

Markets in detail



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The market for office space

A difficult year for the German office markets

In the reporting year 2023, the leading office markets faced several problems simultaneously. Inflation, especially due to increased energy costs, interest rate increases at short intervals, the ongoing war in Ukraine, from October another armed conflict in Gaza, mood-damaging expectations of a recession, increasing ESG requirements and continued underperformance of governments with fragmentation of the party landscape with an EU-wide rise of populists and other issues fuelled increasing uncertainties that often led to both expansion and relocation plans being cancelled or at least put on hold indefinitely across all asset classes. In addition, numerous office tenants have used the worsening development to assess to what extent they take the working from home concept, which a considerable part of the office workforce welcomes, as an opportunity to reduce their space requirements for at least some and to decrease the associated rent costs and overheads through inexpensive, and therefore generally working, subletting concepts.

The pessimistic forecasts regarding falling sales and increasing supply reserves that DIP published in "Markets and Facts" at the beginning of 2023 therefore materialised. Despite falling sales dynamics, however, this is not a "slump" of markets but rather a "wait and see" on the part of market players in an uncertain global and macroeconomic environment. There is also positive news to report from 2023: a further rise of prime rents.

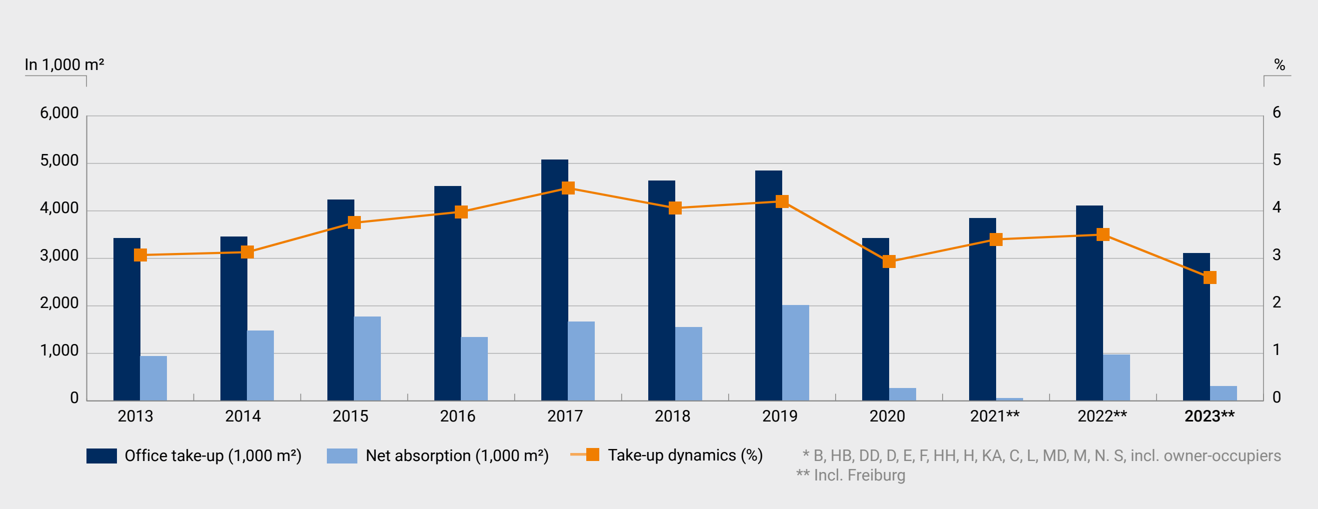
> **Despite falling sales dynamics, however, this is not a "slump" of markets but rather a "wait and see" on the part of market players in an uncertain global and macroeconomic environment.**

With a significantly subdued take-up dynamics, the office markets are changing in completely different ways. While modern, flexible-use areas that meet the ESG criteria in the long term continue to be in demand and are marketed at market prices, older properties with modernisation backlogs and rigid, outdated floor plans and significantly higher energy requirements continue to come under more and more pressure – all the more so because, against the backdrop of the shortage of skilled workers which significantly increases the demand level of users, the objective compliance with ESG criteria is more and more often also required/expected by the staff of office users and also by suppliers and customers.

Office space take-up below ten-year average

- In the reporting year 2023, the 16 DIP locations for which analyses are available recorded an office space take-up of about 3.1 million sqm of office space. This is about 1,000,000 sqm or 24 % less than the result of the previous year (2022: 4.1 million sqm). The latest market result is therefore 26 % below the ten-year average (Ø 2013–2022: 4.18 million sqm p.a.), this perspective also allows for a medium-term classification of current market events in a context relevant for an analysis.
- About 2.4 million sqm or 78 % of office space at all 16 DIP locations were traded on the seven biggest office space markets in Germany: Berlin, Munich, Hamburg, Cologne, Frankfurt am Main, Düsseldorf and Stuttgart. This corresponded to a decline of about 29 % compared to the previous year (2022: about 3.4 million sqm). The markets that generated the highest take-up in 2023 were Berlin (540,000 sqm), Munich (455,000 sqm), Hamburg (444,000 sqm) and Frankfurt am Main (365,400 sqm).
- The take-up dynamics, which defines the share of space take-up in total supply, *did not* continue its positive development of previous years (2023: 2.6 %; 2022: 3.5 %). However, the markets that were particularly dynamic, i.e. above the average performance of the 16 DIP markets (2.6 %), were Essen (3.7 %), Dresden (3.7 %), Frankfurt (3.2 %), Hamburg (3.1 %), Leipzig (3.1 %), Düsseldorf (3.0 %) and Cologne (2.9 %). Accordingly, the cities of Berlin (2.5 %), Bremen (2.5 %), Nuremberg (2.4 %), Munich (2.1 %), Hanover (1.8 %), Karlsruhe (1.6 %), Stuttgart and Magdeburg (1.5 % each) recorded more moderate office space take-ups.
- The biggest office markets that lost momentum are Stuttgart (–190 basis points), Munich (–140 basis points), Berlin (–120 basis points) and Hamburg (–100 basis points). Only Dresden (+50 basis points) gained momentum.

DIP office markets*: office take-up, net absorption and take-up dynamics



Source: DIP, Aengevelt Research

Net absorption decreased

Net absorption amounted to approx. 308,000 sqm in 2023, which means that it did not reach the result of the record year 2019 (2.0 million sqm). Positive net absorption means that, overall, companies rented more new office spaces during the reporting year than were vacated. Net absorption of the reporting year 2023 is substantially lower by 74 % than the ten-year-average (Ø 2013–2022: 1.17 million sqm). While the period 2014–2019 was characterised by a positive economic development with continuously higher net absorption, on average about 1.58 million sqm, the pandemic brought an inevitable abrupt end to robust growth in the subsequent years 2020 and 2021. The low point was reached in 2021 with a net absorption of only approx. 54,000 sqm. In the following year (2022), the total increased to 973,000 sqm. The positive development of 2023 did not continue, however, the absorption is continuously favourable. The realisation of New Work concepts and the rising demand can be claimed as reasons for the favourable trend.

Office surplus rising considerably

A rising supply of office space due to increased completions and a trend towards remote working resulted in a further increase in offices available at short notice in the 16 analysed German markets during 2023; supply rose by about 947,000 sqm to about 6.6 million sqm of office space. Accordingly, the average vacancy rate on the 16 DIP markets rose by approx. 4.7 % at the end of 2022 to approx. 5.5 % in the year after.

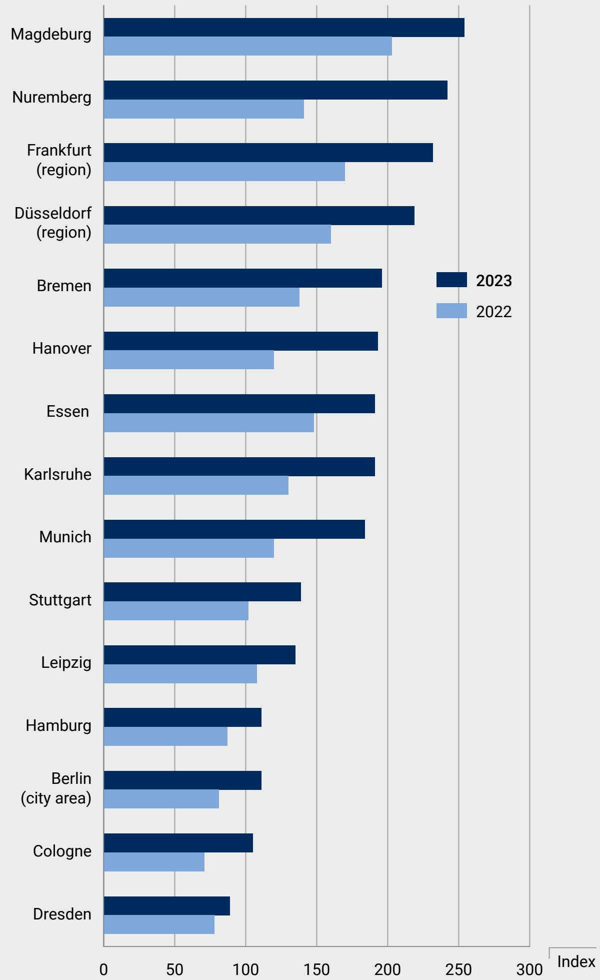
On average, around 17 % more offices were available for rent at the end of 2023 than only a year before. This continued the trend of increasing supply reserves we saw in the previous year, at a much higher rate.

- The markets with a particularly dynamic increase in supply reserve in 2023 included Hanover (+41 %), Berlin (+36 %), Bremen (+35 %), Cologne (+25 %), Munich (+23 %), Nuremberg (+22 %) and Karlsruhe (+20 %).
- By contrast, relatively moderate increases of supply reserves were observed in Leipzig (+18 %), Freiburg (+14 %), Hamburg (+13 %), Frankfurt (+12 %), Düsseldorf (+7 %), Essen (+5 %) and Amsterdam (+2 %). Stuttgart did not record any significant changes.
- An inverse market development, that is a further moderate reduction of the supply reserve, on the other hand, was only measured in Dresden and Magdeburg (–6 % each).
- When assessing a location, it is important to not only look at vacancies and how they change, but one must also consider the fluctuation reserve, which in turn is related to turnover dynamics. Any assessment should focus on the changing ratios of space take-up and increase of supply through new construction as the decisive and therefore relevant factors. The vacancy index "ARLEX" (Aengevelt Research Leerstandsindex) developed for that purpose several years ago by Aengevelt

Research considers that relation between the development of vacancies on the one hand and the take-up dynamics and medium-term (future) completion volumes on the other hand and serves as an indicator for assessments in this industry sector. An index value of 100 represents an ideal, balanced market, values below 100 represent a demand surplus and values above 100 represent a supply surplus. Calculating the ARLEX provides much more informative results when assessing the respective locations than a simple quantitative analysis of the nominal vacancy rate and its change would.

ARLEX: Index of vacancies of DIP office markets*

Index 100: Vacancies are in line with fluctuation reserves required now and in the medium-term



* Due to incomplete data series, Freiburg is not included.

Source: DIP, Aengevelt Research

- The ARLEX changed over the course of the year from 103 points at the end of 2022 to 159 points at the end of 2023 for all 15 office markets that were analysed (due to incomplete data series, Freiburg is not included). The overall market as analysed is thus exhibiting a considerable supply surplus, almost the same trend is noticed in the regions.
- The most balanced mix of office supply, demand and medium-term space expansion can be found in Cologne (105). Other DIP office markets close to a market balance are currently Hamburg and Berlin (111 each).

The most balanced mix of office supply, demand and medium-term space expansion can be found in Cologne (105).

- Overall, index values in the analysed cities range from between 89 (Dresden) and 254 (Magdeburg). The somewhat higher index values such as in, for example, Magdeburg (254), Nuremberg (242), Frankfurt (232), Düsseldorf (219), Bremen (196), Hanover (193), Karlsruhe and Essen (191 each), Munich (184), Stuttgart (139) and Leipzig (135) indicate an oversupply. Accordingly, low index values such as currently only recorded in Dresden (89), indicate surplus demand and therefore a mismatch between demand for offices, vacancy rates and completion levels.
- The most significant jumps of the ARLEX were registered in Nuremberg (+101), Hanover (+73) and Munich (+64) in the reporting year.

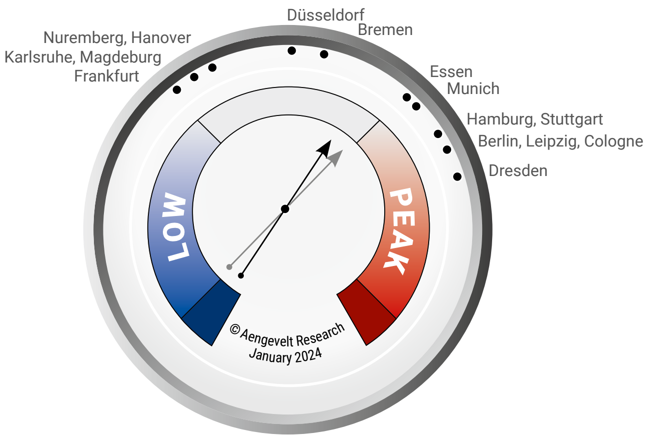
Performance on the 15 DIP markets according to the Office Barometer

The **"Office Barometer"** of Aengevelt Research, a tested, informative, index-based analysis tool, takes into account not only the development of office rents, but also all other essential indicators that reflect supply-demand relations.[1]

The development of both the index values on the 15 DIP markets and the overall index value for Germany differed compared to the previous year and reached a value of 33 at the end of 2023 (2022: 44). In a medium-term context (2013–2022: 37), the performance has to be considered insufficient.

The highest values were recorded on the office markets in Dresden, Berlin, Leipzig and Cologne, while Frankfurt and Karlsruhe had the lowest barometer values.

Office Barometer



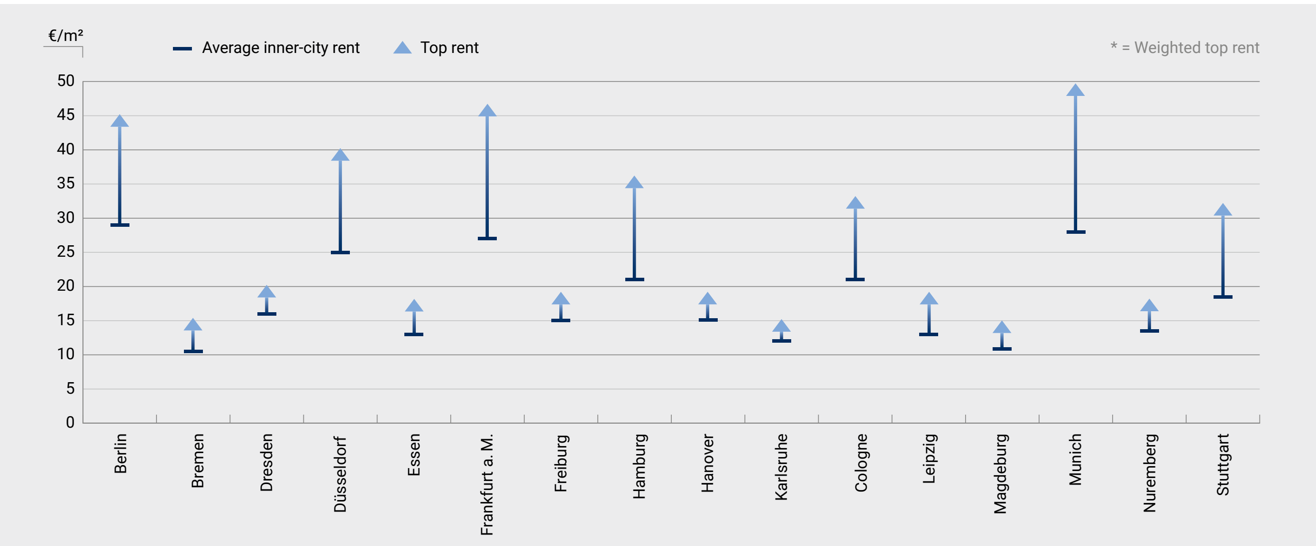
[1] The following key indicators are considered in the calculation of the index values: space take-up, net absorption, available space supply, supply reserve available at short-term, necessary mobility reserve, completion volumes, existing space, top rent, average rent.

Stable rent levels

Office rents rose further in the current reporting year, continuing the development of the last decade. The weighted prime rent based on space take-up on the analysed markets amounted to about € 36.00/sqm at the end of 2023, about 5.6 % higher than in the previous year (2022: about € 34.10/sqm). Among the markets with a significant increase in prime rents in a year-on-year comparison were, above all, Düsseldorf (+29.0 %), Cologne (+20.0 %) and Munich (+12.6 %). A consistent top rent was recorded at the international DIP location Amsterdam. No marked decline of prime rental levels was observed at any DIP location.

A slight negative trend, on the other hand, becomes apparent when comparing the average rents for offices in city centre locations at the end of 2023. A value of about € 22.30/sqm was determined as the weighted average rent for offices in city centre locations in the 16 DIP cities; at the end of the previous year, the average had been € 23.80/sqm.

DIP office markets – rent levels in inner-city locations: top rent and average rent



Source: DIP, Aengevelt Research | As of 31 December 2023

By the end of the year, the average rent level had fallen by approx. 6.3 %. The strongest increases in average office rent were recorded in Amsterdam (31.8 %), Hanover (24.8 %), Freiburg (15.4 %), Düsseldorf (13.6 %) and Magdeburg (9.0 %). By contrast, Hamburg (–10.6 %), Berlin (–9.4 %) and Munich (–9.3 %) recorded the biggest declines, while rents remained at a constant level in Karlsruhe (0 %).

Rents on the office market are thus much more dynamic in the prime segment, based on the demand and quality trends we analysed, while the average rents in city centres have fallen significantly relative to supply quality.

Perspectives and opportunities

The year-end rally, which had been frequently observed in recent years, again failed for the second time in a row at the end of 2023. In view of the continuing political and economic challenges, the start of 2024 did not bring any new impulses. However, for the course of 2024, in particular for the second half of the year, a more positive economic development appears to be achievable. Collective agreements with wage increases and payments to compensate for inflation as well as higher pensions and social benefits will increase the real purchasing power of private households. Following the slight contraction of 0.3 % in 2023, the Bundesbank expects real gross domestic product (GDP) to grow slightly by 0.4 % next year, adjusted for seasonal effects. In 2025 and 2026, growth rates of up to 1.2 % and 1.3 % respectively could be achieved, according to the pertinent analyses carried out by leading economic research institutes. The inflation rate is expected to fall sharply to 2.7 %, which will give central banks room to reduce interest rates which could occur around mid-2024.

In 2024, the Bundesbank expects real gross domestic product (GDP) to grow slightly by 0.4 % next year, adjusted for seasonal effects.

The first steps towards recovery are expected for the second half of the year in particular.

- For 2024, DIP expects a slight recovery of office space take-up, which, after 3.1 million sqm in 2023, could rise again to about 3.5 million sqm; but even in this case, the result would still be below the long-term average. The first steps towards recovery are expected for the second half of the year in particular and could continue in subsequent years, provided the overall political and economic conditions improve.
- The supply reserve, which had increased at most DIP locations in recent years, will continue to rise slightly in 2024 because older properties that do not meet the ESG criteria and cannot be refurbished in an economically/technologically sensible manner will be ever less marketable at adequate rates. However, more and more of these buildings are taken off the market or transferred to temporary or alternative usage options, so that the supply reserve will fall again in the medium term. Whether and to what extent the working from home effect will significantly reduce quantitative space demand beyond the levels already seen, in addition to its quality implications analysed in this report, is impossible to determine with certainty at this point.
- While rents rose nominally in 2023, they fell in real terms. As a result, also in view of the continuing increase in manufacturing costs, a further increase of both prime and average rents can be expected for 2024, with the gap between rent levels widening ever more depending on location and property quality.

The market for retail space

Inflation continues to put pressure on the retail sector

Inflation continued to weigh on the disposable income of households in 2023. Real wages had already fallen by 5.4 % in the second half of 2022, in particular due to rising energy costs, which led to a general reduction in consumption, deferred purchases and more and more consumers switching to discount stores. As a result, the GfK Consumer Climate Index reached a historic low of −42.8 in October 2022. A slight recovery was observed in 2023; however, the consumer climate remained very weak with monthly figures hardly better than −25, only to fall down to −28.3 in November, which again came at the expense of the Christmas business that is so important for many sectors.

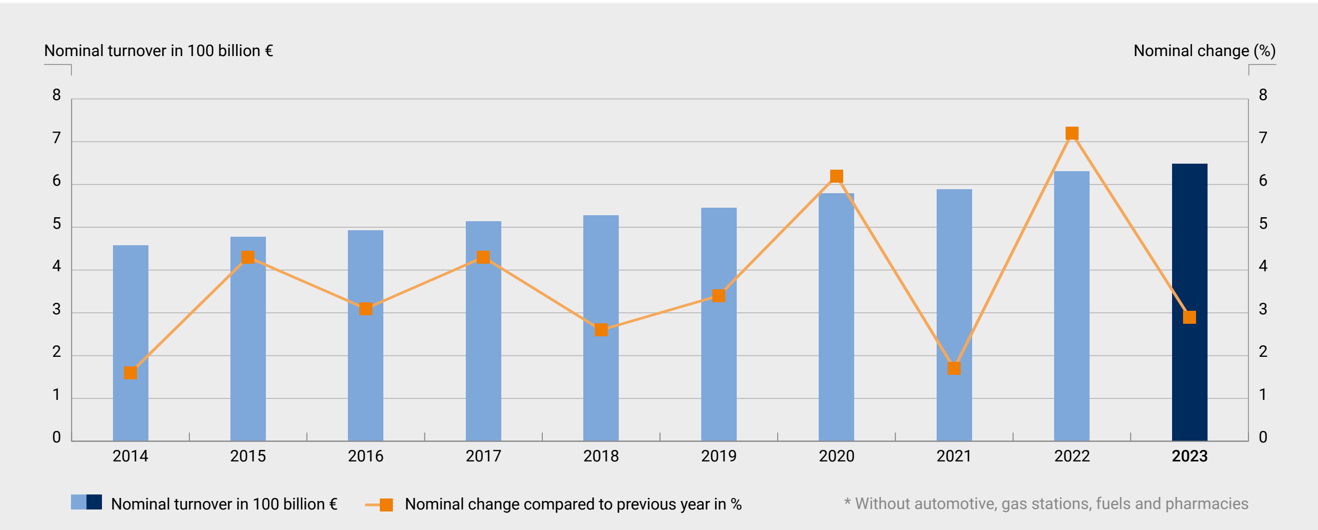
The development of consumer demand was dictated by inflation, standing at 5.9 % in 2023 (previous year: 7.9 %). The real wage index stood at −2.3 % in the first quarter of 2023, before recovering to a positive level of 0.6 % following higher pay rates and inflation compensation payments in the third quarter. The slight fall of the saving rate to 10.7 % (estimate) shows that the room households have for building financial assets has fallen (temporarily). The unemployment rate in Germany was 5.7 % in December 2023, slightly higher than in the previous year (5.5 %). Gross domestic product shrank by 0.3 % in 2023, resulting in a mild recession, which also weighed on the consumer climate.

Despite these challenging conditions, the retail sector saw a new record turnover of about € 649 billion in 2023. This result means a nominal increase of turnover by −2.9 % when compared to 2022 (€ 631 billion). However, once adjusted for prices, the real turnover is −3.4 % lower than in the previous year as a result of the high inflation rate and continuous rise of interest rates. As usual, there are clear differences when looking at the growth patterns in various sectors.

Despite these challenging conditions, the retail sector saw a new record turnover of about € 649 billion in 2023.

When compared to previous years, online and mail-order trade, turnover of which soared during the pandemic (2020 to 2021: +19.1 %), saw turnover fall by 0.4 % year-on-year in 2023. High street retail saw its performance improve slightly by 3.5 % compared to the previous year (other retail with various goods; for example department stores). Although textiles, clothing, shoes and leather goods registered an increase of 2.1 % compared 2022, they did not repeat the previous year's growth of 31.6 %. Overall, the retail sector continues on its positive course.

Turnover of retail spaces* in Germany 2014 until 2023



Source: HDE, Federal Bureau of Statistics © DIP, Aengevelt Research

This development shows that retail has to yield internet and mail order retail a much lower share of its turnover as long as consumers have the possibility to use it at random. None the less, high street retailers continue to face major challenges. Compared to the pre-Covid year 2019, high street retail suffered losses, in some cases even painful losses: For example, book sales fell by 24.0 % in the reporting period, adjusted for prices, and retail sales of toys fell by almost 9.0 %. Sales losses for the type of shops most commonly found in city centres are slowing down the overall development of high street retail as a whole. The result is falling footfall (−2.0 % compared to 2019).

Rents falling strongly, even at attractive top locations

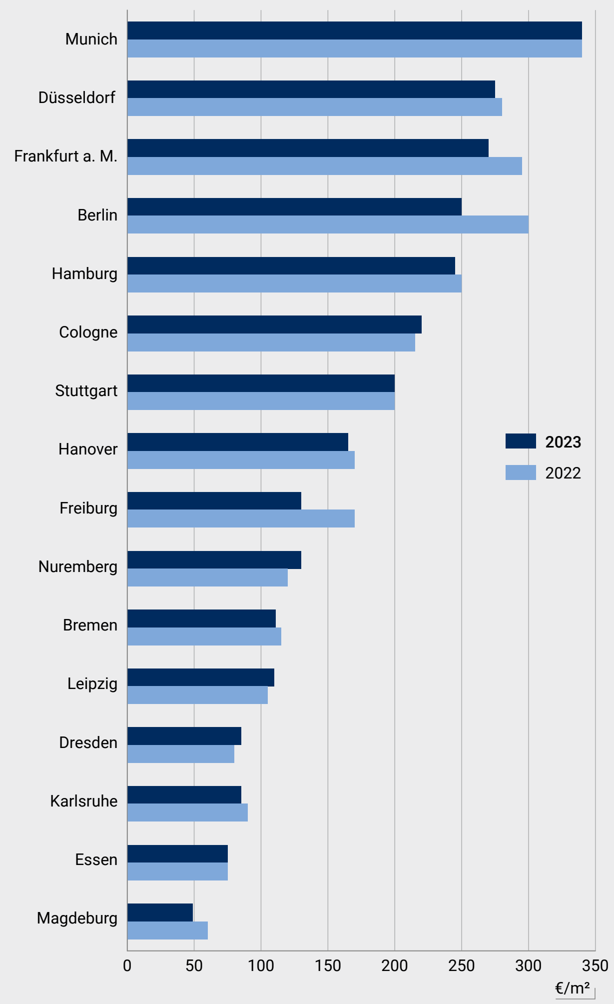
Similar to the previous year, rents at top prime locations in the "Big Seven" amounted to between € 200/sqm of retail space in Stuttgart and € 340/sqm of retail space in Munich at the end of 2023. The remaining leading retail centres in terms of rents are Düsseldorf (€ 275/sqm), Frankfurt am Main (€ 270/sqm), Berlin (€ 250/sqm), Hamburg (€ 245/sqm) and Cologne (€ 220/sqm). Average prime rents generally tended to fall, amounting to about € 257/sqm in 2023 and therefore about 4.3 % less year-on-year (2022: € 269/sqm).

Also outside the "Big Seven" prime retail rents fell considerably in the reporting year 2023.

Also outside the "Big Seven" prime retail rents fell considerably in the reporting year 2023. Besides Cologne (€ 220/sqm = +2.3 %), Nuremberg (€ 130/sqm = +8.3 %), Leipzig (€ 110/sqm = +4.8 %) and Dresden (€ 85.00/sqm = +6.3 %) may have registered an increase of prime rents year-on-year, but are still falling short of pre-Covid rent levels. Munich (€ 340/sqm), Stuttgart (€ 200/sqm) and Essen (€ 75/sqm) reported solid prime rents. On average, a peak of € 104/sqm was paid outside of top prime locations, about 4.6 % less than in 2022 (€ 109.40/sqm). Based on absolute figures, prime rents at all analysed DIP locations are, however, about 59 % lower than in the market leading retail centres of the "Big Seven".

The range of rent decreases is wider than in the previous year with now between −1.8 % to −23.5 %, but it points out the uncertain situation on the market at the analysed DIP locations.

Peak rents* for retail spaces



*Stores with a sales space of approx. 100 m² in prime locations, on ground level

Source: DIP, Aengevelt Research

Only marginal declines were recorded in Düsseldorf (−1.8 %), Hamburg (−2.0 %) and Bremen (−3.5 %). The midfield is occupied by Karlsruhe (−5.6 %) and Frankfurt (−8.5 %). Performance in Berlin (−16.7 %), Magdeburg (−18.3 %) and Freiburg (−23.5 %) was considerably worse, with prices being corrected following marginal dynamic movement.

Overall, the average across all DIP markets fell by only −4.4 % compared to the previous year, a change from € 179.00/sqm to € 171.00/sqm.

Perspectives and investment opportunities

As with most other asset classes, retail investment volumes have been suffering as a result of the macroeconomic situation and rising interest rates. A trade volume of about € 5.3 billion was recorded in 2023, some 40 % less compared to the previous year, which was already below the long-term average. Hamburg (–88 %) and Munich (–93 %) in particular had to content with dramatic losses in investment volume among the prime locations, while Berlin maintained its leading position despite comparatively moderate losses (–20 %), thanks also to the partial sale of the KaDeWe building by Signa to Central Group from Thailand. The prime cities Cologne, Düsseldorf, Frankfurt and Stuttgart recorded different developments at low levels, which is also due to individual major deals.

The individual segments developed very differently in 2023. For example, the amounts invested in department stores almost doubled, with an increase of 84 % compared to the previous year, but this is due to restructuring in this segment. A slight increase of almost 3 % was also recorded for commercial buildings with retail premises. Turnover generated with shopping centres, on the other hand, plummeted with a revenue loss of 77 %. Specialist markets and food retailers also reported a 18 % loss, but nonetheless managed to increase their share in total retail investment to 60 %, while shopping centres now account for less than almost 11 % of investments and the share of commercial premises having fallen to 10 %.

It is expected that 2024 will see a higher number of department store transactions, if only due to the insolvency of Galeria Karstadt Kaufhof, while the slow development will continue in the remaining sectors, at least in the first half of the year. In the second half of the year, it may be that the first moderate interest rate cuts, forecast by the ECB, and smaller, sector-specific increases in real wages could bring growth for retail sales, minor rent increases and an initial moderate building of momentum in investment dynamics.

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The market for real estate investments

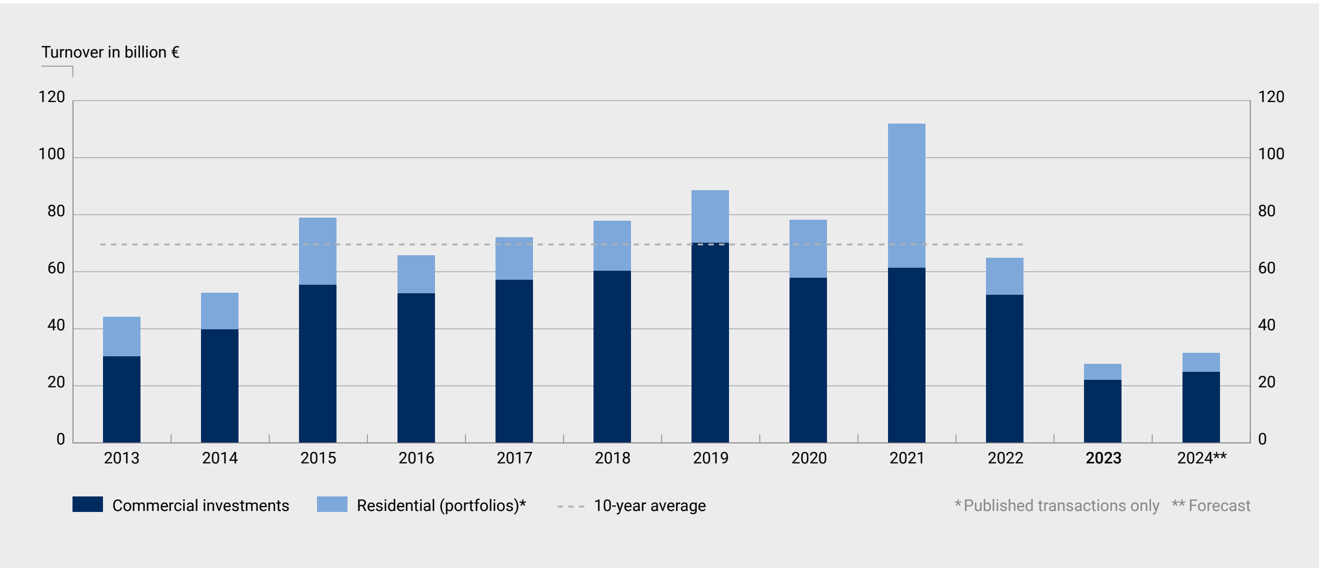
Investments plummeted in 2023 – but prospects for recovery in 2024

Against the background of the current economic conditions, the volume of real estate investments well and truly plummeted in 2023. A total of € 27.7 billion was invested in commercial and residential properties over the course of the year. The market for residential investments in particular lost momentum after its record performance in 2021.

- The investment market recorded an overall result of € 27.7 billion, 57 % less than in the previous year (€ 64.9 billion) and also a marked 62 % less than the most recent ten-year average.
- Commercial investments remained the largest group with about € 22.2 billion, approximately 57 % less than in the previous year. This result was also 59 % lower than the current ten-year average.
- The transaction volume generated with residential portfolios, € 5.5 billion, was also about 57 % lower than in the previous year (€ 12.9 billion). The result was 72 % lower than the ten-year average.
- For the first time, the logistics market was the most sought after asset class with 26 % of commercial investment volume in 2023, followed by the group of Other Investments that includes hotels and nursing homes among others, which accounted for another 26 % of total commercial real estate investment.
- The office segment saw a considerable decline with 25 % or investments of € 5.5 billion being made in this segment. Retail investments were the weakest segment with a share of around 24 % or € 5.3 billion.

After the record set in 2021, sales volumes started to fall in 2022 and 2023, as forecast, but even more significantly so than expected. Overall, the framework conditions were and remain difficult. Interest rates for building loans with a ten-year fixed interest rate have quadrupled since the end of 2021 to 4.23 % in October/November 2023. On top of this, the substantial, increase in energy and commodity prices has had a prolonged impact on investment.

The German Real Estate Market: transaction volumes of commercial and residential investments



Source: own calculations/records © DIP, Aengevelt Research

Real estate investment: turnover in Germany split by asset class

Type of asset class	Rank	Billion € 2023	Billion € 2022	Difference to the previous year Billion €	Difference to the previous year %	Share 2023	Share 2022
Logistics (incl. light industrial)	1	5.7	9.85	−4.15	−42.1 %	26 %	19 %
Office	2	5.5	21.73	−16.23	−74.7 %	25 %	42 %
Retail incl. commercial buildings	3	5.3	8.87	−3.57	−40.2 %	24 %	17 %
Others	./.	5.7	11.58	−5.88	−50.8 %	26 %	22 %
Commercial buildings	./.	22.2	52.03	−29.83	−57.3 %	100 %	100 %
Residential portfolios	./.	5.5	12.9	−7.4	−57.4 %		
Total of real estate investments	./.	27.7	64.93	−37.23	−57 %		

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The spread of yields between commercial buildings and running yields has largely amounted to more than four percentage points in past years – yet it currently is 2.1 percentage points. The marked increase in running yields of domestic bearer bonds is a major factor in this development. The average figure for the year as a whole was 2.5 %, but had been 1.5 % in the previous year. The spread between logistics and commercial properties declined considerably by 50 basis points to 0.3 %, compared to 3 % ten years ago.

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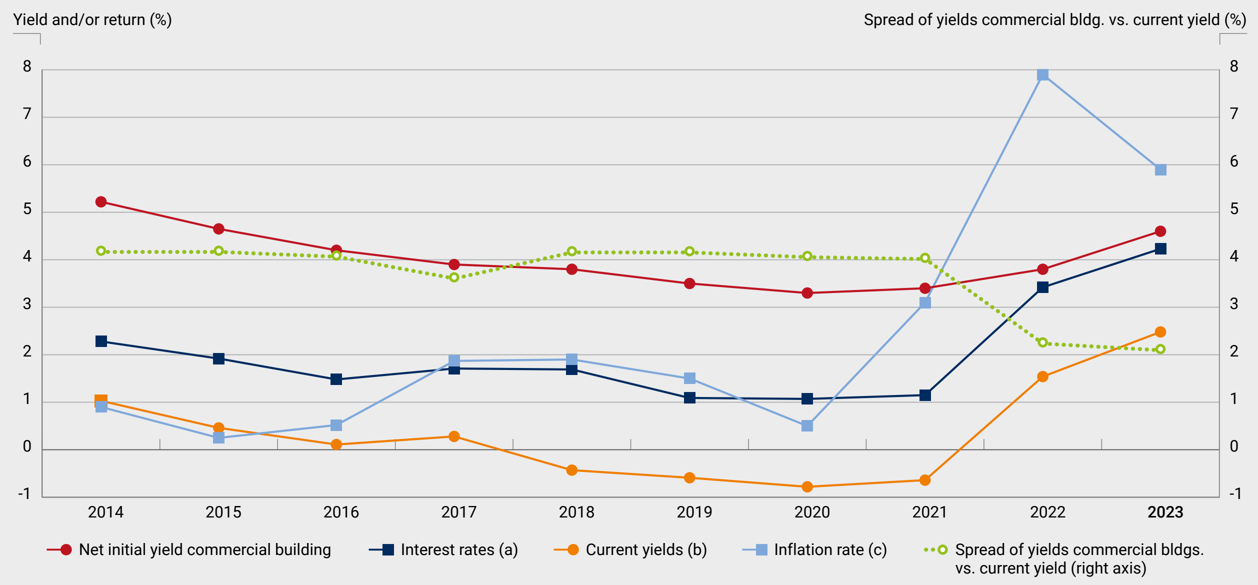
Investment environment: yields (commercial buildings, securities) interest, inflation



(a) Loans for residential bldgs., 5 to 10 years, as of Sept. of each year, private, new loan
(b) Current yields of domestic bearer bonds, total of averages
(c) Consumer price index (total) for Germany

Source: Deutsche Bundesbank (German Federal Bank), own data Aengevelt Research © DIP, Aengevelt Research

Commercial investments in the "Big Seven"

The transaction volume in the "Big Seven" amounted to € 8.9 billion in 2023, about 68 % less than in the previous year. The share in overall commercial investments in Germany accounted for by the "Big Seven" fell by 13 percentage points year-on-year to now 40 % (2022: 53 %). As in the previous year, most of the investment into the "Big Seven" went to Berlin with € 3.13 billion; however, this result is 65 % lower than in the year before. Recording a transaction volume of € 1.29 billion, a 67 % decline year-on-year, Munich ranks second. Frankfurt is ranked just behind with € 1.21 billion and 74 % below the previous year's figure. Hamburg was also unable to match the previous year's performance and ended the year with approx. € 1.18 billion or 75 % less. Similarly, Düsseldorf could not improve its performance and recorded € 0.8 billion or 73 % less than in 2022. A decrease was also recorded in Stuttgart, where the difference amounts to 40.8 %. This time, Cologne is the weakest of the "Big Seven", recording a result of € 0.61 billion of concluded investments or 50.4 % less than in the previous year.

The development in 2024 and beyond will be mainly driven by the macroeconomic environment.

The development in 2024 and beyond will be mainly driven by the macroeconomic environment. The significant fall of the inflation rate - the Bundesbank forecasts only 2.7 % for 2024 – gives central banks room for cutting base rates which is expected in the course of 2024. Commercial banks already lowered their building loan interest rates significantly: from approx. 4.2 % in November 2023 to 3.5 % in January 2024.

Expectations of further interest rate cuts, however, initially lead buyers and sellers to continue to wait and see – investors hoping for further interest rate cuts and sellers hoping for a renewed increase of property prices. For the second half of 2024, DIP therefore expects momentum on the investment market to gradually pick up from autumn onwards. As interest rates continue to fall, return expectations will be corrected downward somewhat, while purchase price factors will moderately increase where plausible. There are capital reserves available as a result of the limited investment activity of the previous year. Experience suggests that these reserves will also flow into real estate investments again once the economic development in 2024 has been assessed.

It is expected that the investment volume for 2024 as a whole will be higher than the rather weak performance of 2023 in established growth regions, but will remain below the ten-year-average.

Commercial real estate investments: turnover in the "Big Seven"

Location	Rank	Billion €		Difference to the previous year	
		2023	2022	Billion €	%
Berlin	1	3.13	8.96	−5.83	−65.1 %
Munich	2	1.29	3.86	−2.57	−66.6 %
Frankfurt a. M.	3	1.21	4.65	−3.44	−74.0 %
Hamburg	4	1.18	4.70	−3.52	−74.9 %
Düsseldorf	5	0.8	2.98	−2.18	−73.1 %
Stuttgart	6	0.68	1.15	−0.47	−40.8 %
Cologne	7	0.61	1.23	−0.62	−50.4 %
Real estate investments "Big Seven"		8.9	27.52	−18.62	−68 %
"Big Seven" share in commercial investments		40 %	53 %		−13 %

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Return levels rose in 2023

Contrary to forecasts from last year, German DIP members saw returns rise, on average by between 10 and 80 basis points from 2022 to 2023, depending on asset classes:

- Top returns for top commercial properties amounted to about 4.6 % (2022: 3.8 %), while returns for pure office buildings are, on average, 80 basis points higher at 4.9 % (2022: 4.1 %).
- Returns for self-service shops and specialist retailers rose slightly, but these properties remain attractive with average top returns of 6.1 % (2022: 5.7 %).
- Top returns for logistics properties also rose in the course of 2023 to 4.9 % (2022: 4.6 %).

The picture of top returns or top factors differs as follows for the different cities of the DIP association: Munich has been the traditional leader in regard to prices, followed by the remaining "Big Seven". There was a significant upward movement of returns or a reduction of purchase price factors across all asset classes and locations. At the turn of the year 2023/24, however, this trend came to a halt because falling interest rate levels will, once again, lead to a compression of returns.

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Residential investments

Residential investments also saw a significant decline in 2023. The transaction volume of € 5.5 billion was about 57 % lower than in the previous year that closed with € 12.9 billion. This means that the year 2023 ended with the lowest sales volume since 2010. A sharp rise of interest rates, a slowing economy and high inflation brought a continuous downward trend in the reporting year.

Top returns and top multipliers at DIP locations

	Commercial buildings		Residential		Self-service/specialized retailers		Offices	
Location	Return	Multiplier	Return	Multiplier	Return	Multiplier	Return	Multiplier
Berlin	4.6 %	22	3.6 %	28	5.9 %	17	4.3 %	23.5
Bremen	5.3 %	19	4.0 %	25	6.7 %	15	5.6 %	18
Dresden	5.0 %	20	3.4 %	29	6.9 %	14.5	5.9 %	17
Düsseldorf	4.6 %	22	3.8 %	26	6.3 %	16	4.6 %	22
Essen	5.6 %	18	4.0 %	25	6.7 %	15	5.9 %	17
Frankfurt a. M.	3.9 %	26	3.6 %	28	5.4 %	18.5	4.0 %	25
Freiburg	4.8 %	21	3.1 %	32	5.9 %	17	5.0 %	20
Hamburg	4.4 %	23	3.8 %	26	5.4 %	18.5	4.6 %	22
Hanover	5.0 %	20	3.7 %	27	5.9 %	17	5.3 %	19
Karlsruhe	4.0 %	25	3.4 %	29	7.7 %	13	5.6 %	18
Cologne	4.6 %	22	4.0 %	25	5.6 %	18	4.8 %	21
Leipzig	4.7 %	21.5	3.8 %	26	5.6 %	18	5.0 %	20
Magdeburg	5.1 %	19.5	3.8 %	26	6.3 %	16	5.1 %	19.5
Munich	2.9 %	34	3.3 %	30	4.6 %	22	3.3 %	30
Nuremberg	4.8 %	21	3.4 %	29	7.7 %	13	5.3 %	19
Stuttgart	4.6 %	22	3.7 %	27	5.6 %	18	5.0 %	20
DIP-16	4.6 %	22.3	3.7 %	27.4	6.1 %	16.7	4.9 %	20.7

The top returns for residential investments on the DIP markets (new buildings and existing buildings after extensive refurbishment) amounted to 3.7 %, on average, an increase of 10 basis points year-on-year, with 3.6 % having been recorded in the past year. The change in financing conditions and high construction costs led to sometimes considerable corrections of returns at the analysed DIP locations. The cities have also seen a widely equal development: Readjustments of prices have progressed much more in some cities than in others. Freiburg leads the price list with 3.1 %, followed by Munich with 3.3 %. In some cases, returns rose by up to 70 basis points, for example in Hamburg with 3.8 % at the moment, or by 20 basis points in Düsseldorf, also to 3.8 %.

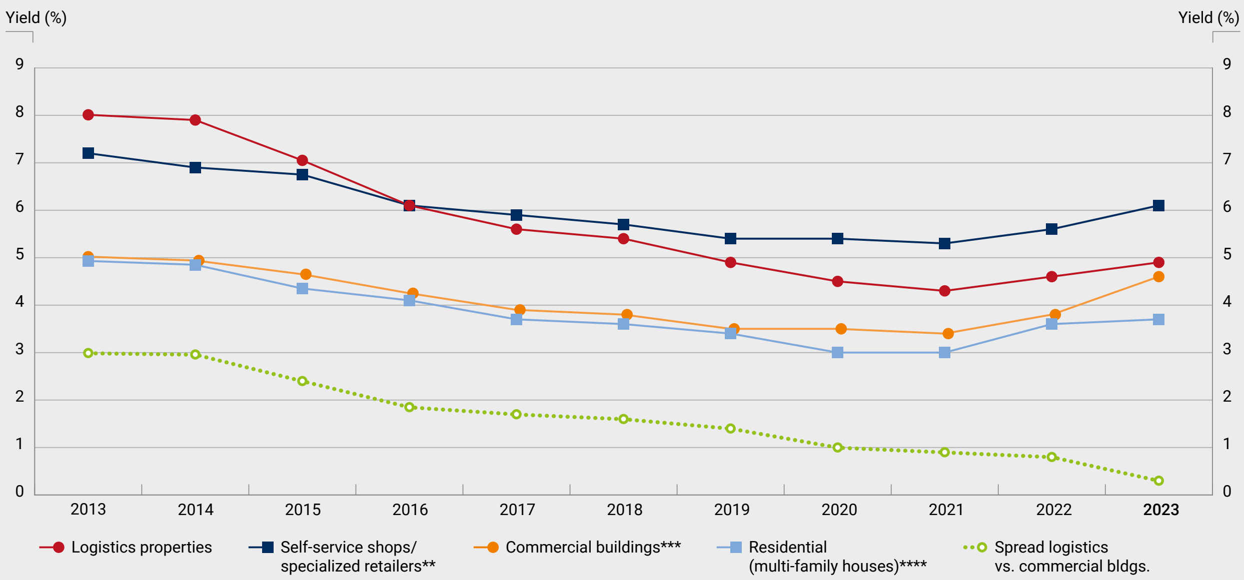
Outlook

Should the expectations of interest rate cuts in the course of 2024, which were partially fuelled by statements of the ECB President at the Davos Economic Summit in January 2024, come true, this signal would be a causal factor for revived transaction activities. However, the requirements set out in the amendment to the *Gebäudeenergiegesetz* (Buildings Energy Act) have a restrictive effect, as especially older existing properties face timely and costly refurbishment obligations when their heating systems need to be modified. Continued discussions at EU level on more stringent refurbishment requirements for older buildings also bring risks of loss of value. Uncertainties surrounding the granting of KfW subsidies had additional inhibiting effects on investment deals.

Positive factors include the persistent surplus demand for housing in urban areas, which continues to be exacerbated by years of entirely inadequate new construction activity. The latest collective wage agreements will also create room for rent increases, which will, however, be swallowed by the increase of overheads not all of which can be passed on.

Depending on further global and national economic developments, we might see an initially rather moderate increase in the pace of investment activities in the second half of 2024. With construction in the residential sector still falling far short of what is needed, it is not possible to come anywhere close to meeting the demand for affordable rental properties on the housing market in urban centres.

Net initial yields* of real estate asset classes



* Peak ** Food stores and specialized retailers *** Inner-city locations, high-quality or contemporary fittings, with a major part of retail
**** Multi-family houses, prime locations, high-quality fittings

The market for logistics premises

Highly resilient during crisis and growing continuously

The logistics market in Germany continued to withstand all crises in 2023. One of the factors driving the high demand for logistics properties remains the strong performance of online and mail-order trade. According to surveys by the German Trade Association HDE, the turnover of online trade stagnated at € 84.5 billion compared to the previous year, but still remained a marked 43 % above pre-Covid levels.

Even though high street retail has been able to make up some ground against online trade after the end of the pandemic, internet-based B2C trade has become a staple with medium- and long-term growth prospects. There is also an increasing focus on last-mile logistics with corresponding city hubs, for which areas and premises that were previously used differently (such as former petrol stations, abandoned commercial properties, office properties that are no longer marketable) can also be used.

In order to achieve even greater supply chain resilience in the face of global crises and to reduce dependence on foreign production sites and suppliers, the demand for buffer warehouses is also increasing to ensure broader supply capabilities in the future. In addition, the logistics industry also benefits from the relocation of production, for example chip production, to the countries with the strongest demand (re-shoring; near-shoring).

Conceptual modifications

Rapid technological developments, global disruptions to supply chains, increasing skills shortages and broad sustainability: The challenges which the logistics industry has to face remain extremely varied and complex. The industry focuses more and more on automation and digitisation.

The pioneer of automation is intralogistics. Already today, we are seeing state-of-the-art autonomous mobile warehouse robots working in large, fully automated logistics centres alongside human workers. They are equipped with cost-effective, high-performance control technology as well as sensors and optimise the flow of material within the logistics site with the help of artificial intelligence (AI) and machine learning (ML). The warehouse robots can also be

> **The challenges facing the logistics industry remain extremely varied and complex. The industry focuses more and more on automation and digitisation.**

controlled collectively as a networked workforce and they accelerate order picking and increase process quality. Every robot and every object within the supply chain are linked online, so that all data can be collected and shared in real time. This networking allows for detecting faults within the supply chain at an early stage. As digitalisation advances, the requirements regarding product intelligence and the configuration of the corresponding properties in terms of technical infrastructure continue to increase.

At the same time, digitisation does not only place higher technological demands on logistics properties, but both political guidelines and a steep rise in energy costs lead to an accelerated focus on sustainability. The logistics industry is making great efforts in Germany to limit adverse effects on the environment and society. In cities, for example, the focus is on logistics premises close to the city or the centre, ideally between 250 and 1,000 sqm in size, that are distributed across the entire urban area. The aim is to make (more) emission-free and climate-friendlier deliveries using electric vehicles (electric bikes or vans) on the local level. All of these changes are also made necessary against the backdrop of the worldwide move towards tackling climate change by changing how we generate energy and how we commute and travel etc. In addition to year of construction and third-party usability, the ESG criteria Environment, Social and Governance in particular will also determine the price and value performance of logistics properties in the future.

> **In addition to year of construction and third-party usability, the ESG criteria Environment, Social and Governance in particular will also determine the price and value performance of logistics properties in the future.**

Buildings certified according to ESG criteria will achieve (significantly) higher rents and market prices in the future compared to inadequate or non-certified logistics properties. Sustainability measures can include, for example, the revitalisation of brownfields, photovoltaic systems on facades, walls and roofs, efficient lighting systems (LEDs) and modern heating systems.

Logistics investment and letting/ owner-occupiers in Germany

The pandemic led to a significant increase in demand on the logistics market, especially also in the transit country Germany, so that logistics properties were able to take the lead as the strongest asset class on the commercial investment market for the first time. Since 2016, more than 3.8 million square metres of new logistics premises have been completed every year. Despite strong construction activity in recent years, there is a lack of modern and sustainable logistics properties that meet demand, resulting in strong surplus demand, especially in competitive and well-connected areas. In addition, the competitive situation is further exacerbated by the scarcity of suitable designated building land and areas and rising construction costs.

There is a lack of modern and sustainable logistics properties that meet demand, resulting in strong surplus demand, especially in competitive and well-connected areas.

In 2023, the logistics market recorded sales of approx. € 5.7 billion, which was, however, an only below-average result with a significant decline by about 42 % compared to the total of the previous year 2022 (€ 9.9 billion). Additionally, the logistics investment market did not remain unaffected by the marked rise of interest rates. The first half of 2023 in particular was very subdued. In the 2023 financial year, the most important real estate markets experienced an analogous decline in market dynamics, including the logistics segment. The leader of the "Big Seven" in the report year is Munich with a turnover of € 231 million, followed by Düsseldorf (€ 204 million), Berlin (€ 199 million), Stuttgart (€ 160 million), Frankfurt (€ 159 million) and Hamburg (€ 115 million). Below the € 100 million mark ranks Cologne with a transaction volume of a weak € 16 million.

Cause for hope is the city of Leipzig with a volume of € 323 million, which improved on the previous year by a strong 30 %. The key to this was the sale of LogPark among others.

Among the top transactions in 2023 were the acquisition of the logistics property "Areal Böhler" with € 156 million in Düsseldorf by Jamestown and the sale of the Panattoni Logistics Campus in Hanover by Panattoni Europe to AEW Europe S.A. for an (estimated) purchase price of approx. € 110 million.

Logistics leases considerably short of previous year's value

The space take-up of about 5.9 million sqm of premises let to tenants or completed for owner-occupiers in 2023 fell short of the good result of the previous year (2022: 8.2 million sqm). With a take-up of about 1.55 million sqm, a large share was again accounted for by the "Big Five" in 2023 (2022: about 1.65 million sqm). Frankfurt ranked first with a volume of 430,000 sqm, followed by Berlin (337,000 sqm), Düsseldorf (287,000 sqm), Hamburg (271,500 sqm) and Munich (229,500 sqm). All "Big Five" locations suffered significant losses compared to the previous year, the most marked decrease was recorded in Berlin (–60 %). The reasons for this development are the acute shortage of premises at prime locations and insufficient zoning provisions, causing a shift to medium-sized and smaller cities.

The year 2022 was marked by a sharp rise of interest rates. The real estate market, including the logistics market, is currently still determining and correcting prices as a result of the higher interest rates.

Top returns in across the 16 DIP locations we analysed (Berlin, Bremen, Dresden, Düsseldorf, Essen, Frankfurt am Main, Freiburg, Hamburg, Hanover, Karlsruhe, Cologne, Leipzig, Magdeburg, Munich, Nuremberg and Stuttgart) averaged 4.9 % in 2023 and were thus 30 basis points higher than in the previous year (2022: 4.6 %):

- Comparing 2023 (4.5 %) to 2022 (4.0 %), returns in the "Big Seven" rose by a total of 50 basis points.
- The most expensive cities, based on top returns for top logistics properties, were Frankfurt and Hamburg with a top return of 4.1 % each. In second and third place are Cologne and Berlin with a top return of 4.2 % each.

Higher returns were recorded in Munich (4.3 %), Düsseldorf (4.4 %) and Hanover (4.4 %).

- Roughly in line with the DIP average (4.9 %) are top logistics properties in Bremen (4.6 %), Leipzig and Nuremberg (4.9 % each) as well as Freiburg (5.3 %).
- Higher top returns can be generated with top logistics properties in Essen (5.5 %), Dresden (5.8 %) and Magdeburg (5.8 %).
- The highest top returns are currently achieved in Karlsruhe (6.0 %) and Stuttgart (6.5 %).

At most DIP locations, both prime rents and returns for logistics properties rose in 2023, reflecting market-driven price corrections. There are opportunities for targeted investment if one takes into account that, depending on the micro and macro location and the quality of the rental contracts (rent, term, creditworthiness of the tenants) and the property (location, type of third-party use, structural age, condition), initial returns are usually up to 2 percentage points higher than the top returns at top locations and up to 3.5 percentage points higher at the other locations.

Rising rents

Rent levels rose at all DIP locations in 2023, both at top and at secondary locations. This is evidence of how sought after the (still) far too limited number of premises are that meet the demand for modern and sustainable properties that are competitive in a global world. Prime rents at DIP locations rose accordingly year-on-year, on average (+11.1 %) from € 6.30/sqm (2022) to € 7.00/sqm (2023).

- The most expensive logistics location, based on prime rent levels, is the economically strong metropolitan region of Munich (€ 9.00/sqm) with its long-since limited supply. Urban centres like Stuttgart and Berlin (€ 8.10/sqm each), Düsseldorf (€ 8.00/sqm) and Hamburg (€ 7.80/sqm) as well as Cologne and Frankfurt (€ 7.70/sqm each) are also located in the higher rent segment.
- Nuremberg (€ 7.40/sqm), Essen (€ 6.50/sqm) and Karlsruhe (€ 6.40/sqm) position themselves at an average level, while premises in Freiburg (€ 6.20/sqm), Dresden (€ 6.10/sqm) and Hanover (€ 6.10/sqm) are cheaper to rent.
- Rents in Leipzig (€ 5.80/sqm), Bremen (€ 5.70/sqm) and Magdeburg (€ 5.30/sqm), on the other hand, are (still) low and inviting for newcomers.

Rent levels rose at all DIP locations in 2023, both at top and at secondary locations.

Logistics real estate: rents and yields

	Peak rent in €/sqm			Top yield in %/a		
Location	2022	**2023**	Trend	2022	**2023**	Trend
Berlin	7.9	8.1	↗	4.0	4.2	↘
Bremen	5.0	5.7	↗	4.3	4.6	↘
Dresden	5.8	6.1	↗	5.7	5.8	↘
Düsseldorf	7.0	8.0	↗	4.3	4.4	→
Essen	5.5	6.5	↗	5.3	5.5	↘
Frankfurt a. M.	7.3	7.7	↗	3.6	4.1	↘
Freiburg	5.7	6.2	↗	4.8	5.3	↘
Hamburg	7.0	7.8	↗	3.6	4.1	↘
Hanover	5.5	6.1	↗	3.9	4.4	↘
Karlsruhe	6.0	6.4	↗	5.0	6.0	↘
Cologne	6.6	7.7	↗	3.9	4.2	↘
Leipzig	5.2	5.8	↗	4.7	4.9	↘
Magdeburg	5.0	5.3	↗	5.5	5.8	↘
Munich	8.0	9.0	↗	3.4	4.3	↘
Nuremberg	6.5	7.4	↗	5.6	4.9	↘
Stuttgart	7.3	8.1	↗	5.5	6.5	↘
DIP average	6.3	7.0	↗	4.6	4.9	↘

Source: DIP, Aengevelt Research

Land price levels for new builds

The average price for commercial building land on the 16 DIP markets we analysed has now risen to about € 266.00/sqm. This corresponds to a modest decrease of 1.1 % compared to the previous year (2022: € 269.00/sqm). Many property markets have seen a considerable change in prices in the recent past. The increasing scarcity of building land that meets demand and is therefore suitable for the market causes prices across Germany to rise – especially in the "Big Seven", this trend often causes investors to engage in real estate speculation and to wait, in order to achieve the highest possible sales price.

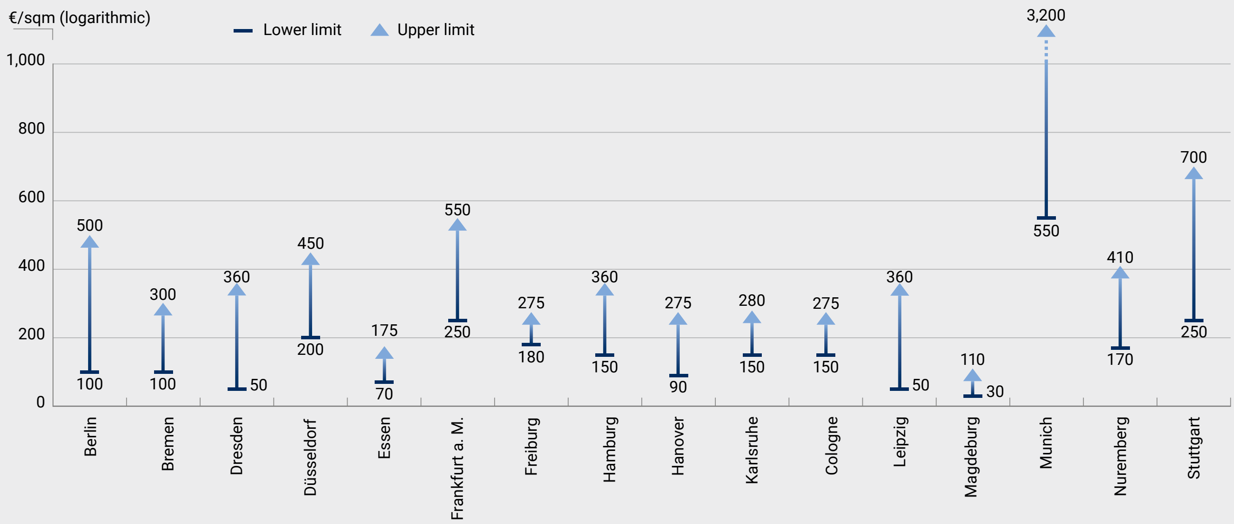
- The most expensive city and metropolitan region remains Munich with € 800.00/sqm, at a considerable distance followed by Stuttgart (€ 580.00/sqm), Frankfurt (€ 380.00/sqm) and Düsseldorf (€ 360.00/sqm).
- Mid-range priced cities are Hamburg (€ 260.00/sqm), Freiburg and Karlsruhe (€ 240.00/sqm each), Berlin (€ 230.00/sqm), Nuremberg (€ 245.00/sqm), Cologne (€ 210.00/sqm) and Hanover (€ 190.00/sqm).
- Prices in Essen (€ 135.00/sqm), Bremen (€ 120.00/sqm), Leipzig (€ 95.00/sqm) and Dresden (€ 87.00/sqm) are significantly lower.
- On average, the lowest prices for commercial properties are currently paid around Magdeburg (€ 80.00/sqm), at least until the flagship site of Intel makes itself felt.

The aforementioned prices are for developed plots without prior contamination in higher-quality industrial estates or for commercial areas with optimal connections (excluding old industrial or production sites in city centres) with a property price space index of between 0.6 to 1.1.

Property prices are expected to rise sharply at central and ideal locations due to a continuous scarcity of premises.

When assessing the development of property prices, however, it has to be borne in mind that a sharp increase of prices at central and ideal locations has to be expected due to scarcity of premises in particular. For example, well-sized plots are and remain subject to considerable mark-ups, especially old industrial or former production sites in city centres.

Prices for commercial building land: range at the DIP locations



Note: The aforementioned prices are for a developed plot in higher-quality industrial estates or for commercial areas that are reached easily (excluding old industrial or production sites in city centres). Usually, these have a floor space index of between 0.6 to 1.1.

Source: RIWIS, Bulwiengesa © DIP, Aengevelt Research

Construction activity higher than ten-year average

In 2023, about 760,000 sqm of logistics premises were completed in DIP cities and their immediate surroundings. This is slightly higher than the absolute value of the previous year (2022: approx. 740,000 sqm). The result is approx. 18 % higher than the ten-year average (Ø 2013–2022: 642,000 sqm per year). This result confirms the growing demand for logistics space. We expect another stable completion volume of about 750,000 sqm for 2024, which is higher than the long-term average (642,000 sqm).

Outlook

The logistics segment continues to offer good investment prospects in the medium to long term. In view of various crisis-related developments in different asset classes, the logistics market was comparatively more resilient in the face of crisis and more profitable.

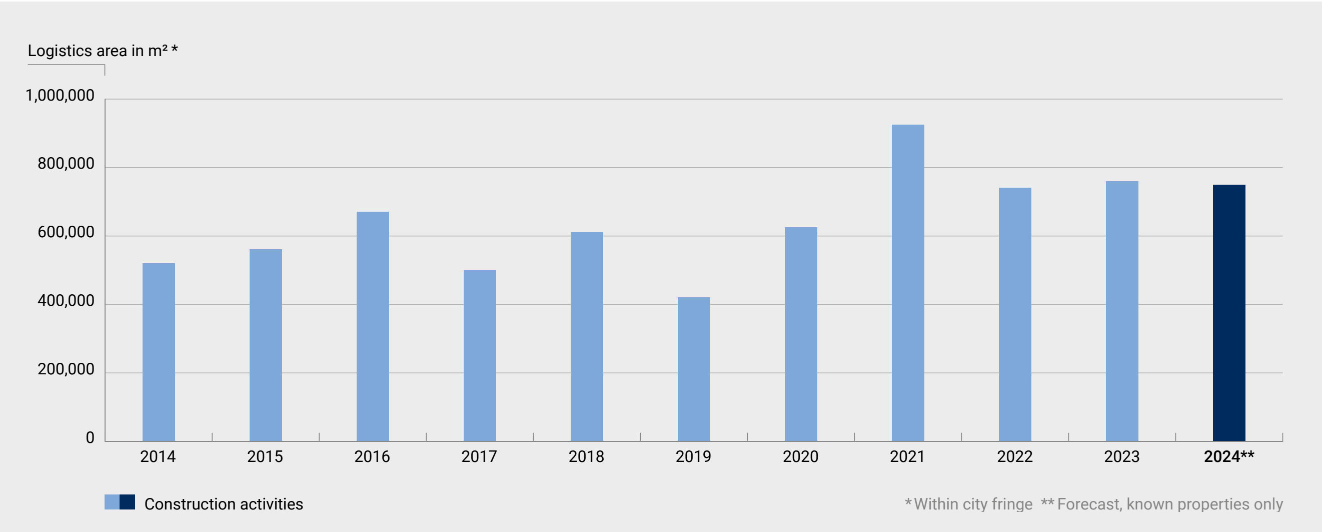
However, land availability has increasingly become a factor that is inhibiting growth, especially in the top cities. As a result, secondary and tertiary locations are also increasingly becoming the focus of investment. On the other hand, the shortage of premises could result in further price increases and reduced economic viability for logistics companies.

Companies therefore need to find innovative solutions to optimise their logistics processes and to overcome the space bottlenecks, for example by using automation technologies and setting up multi-user warehouses.

In city centres, city logistics creates strong and sustained dynamics, partly because some submarkets – for example food delivery services – still have to develop and scale up and because some concepts are still at the testing stage. New transport and delivery technologies such as robots are also developing for the last mile. In this context, electrified air transport, for example in the form of (autonomous) transport drones, is also becoming more important much more quickly than previously assumed by public administration and politics in the course of legislation implemented at EU and national level as well as in regard to technical and economic feasibility.

Companies need to find innovative solutions to optimise their logistics processes and to overcome the space bottlenecks.

DIP Locations: construction activities for logistics in sqm



The Real Estate Market in Amsterdam and the Netherlands

A short overview of the year 2023

In Amsterdam and across the Netherlands, 2023 was the year marked by a big drop in the number of transactions, a lower vacancy rate and much uncertainty regarding laws and regulations in the residential investment market. Only in the last quarter there was an increase in the supply of commercial property and there was a slight recovery in take-up levels.

Residential properties

Due to the housing shortage in the Netherlands, house prices are still rising. However, due to increased mortgage interest rates, the increase slowed down. As a result, the average transaction price in Greater Amsterdam also increased by 2.7 %. The average selling price per house was € 520,095 and the highest price per square metre is paid for flats at € 7,464 (average). The most expensive homes are located in Amsterdam South: between € 10,000–15,000 per sqm. In the third quarter, it became clear that there is a shortage of 319,000 homes throughout the Netherlands. In the fourth quarter, the rise in mortgage interest rates eased and transaction prices also rebounded.

Retail properties

Retail property in Amsterdam is most likely the only sector where vacancy rates will start to increase in the coming period. For a long time, the vacancy rate of retail properties remained stable at 6 %, rising slightly to 6.2 % by 2023.

Retail property in Amsterdam is most likely the only sector where vacancy rates will start to increase in the coming period.

In 2023, there were several bankruptcies among major retailers. These bankruptcies caused an increase in supply of 1.2 % in supply in the last quarter. In contrast, the bankruptcies of larger retailers caused retail spaces ranging from 500 sqm to 1,000 sqm to become vacant. This led to an increase in take-up of 16 % in Q4/2023.

Despite these figures, investors and retailers still see opportunities in retail property. In Amsterdam, top rents are still being paid in the P.C. Hoofstraat (€ 2,800/sqm) and Kalverstraat. Large retailers are leaving larger spaces, but smaller retailers, on the other hand, more frequently leased smaller spaces. In Dutch retail, creativity is key (and this is reflected in the smaller spaces. In addition, because there already was a strong depreciation in the retail market, properties remain relatively well priced.

Office premises

Due to a shortage of available and suitable supply, the number of office leasing transactions fell sharply throughout the Netherlands. At the end of the year, total take-up was 15 per cent lower than in 2022. Only after the second quarter, it picked up again, a 64 % rise in office take-up took place. Almost half of these transactions (31 %) took place in Amsterdam.

Take-up dynamics were particularly high in the Amsterdam area, especially in the South Axis and surrounding area. The South Axis is still the top office location in Amsterdam. It is easily accessible both by public and private transport. In addition, almost all offices meet sustainability requirements. In Amsterdam as a whole, the vacancy rate is around 6.9 %, and at the South Axis the vacancy rate is negligible.

The low vacancy rate is mainly caused by the lack of good quality office space at easily accessible locations. This hinders companies from relocation, making it more difficult to convert the current stock. New office developments fail to materialise due to high land costs and construction costs. There is currently a shortage of both housing and offices in Amsterdam. A unique situation.

There is currently a shortage of both housing and offices in Amsterdam. A unique situation.

Logistics

As with the office market, the logistics market is also experiencing a severe shortage of suitable supply. The new nitrogen regime and municipalities' land policies have led to a growing shortage of new-build logistics sites. These sites are preferably located along a highway or canal. The lack of these particularly reduced the take-up of large-scale logistics locations. In Amsterdam, transactions can therefore only be seen in the Schiphol area. In this area, older logistics sites can be redeveloped into new better logistics spaces.

Investments

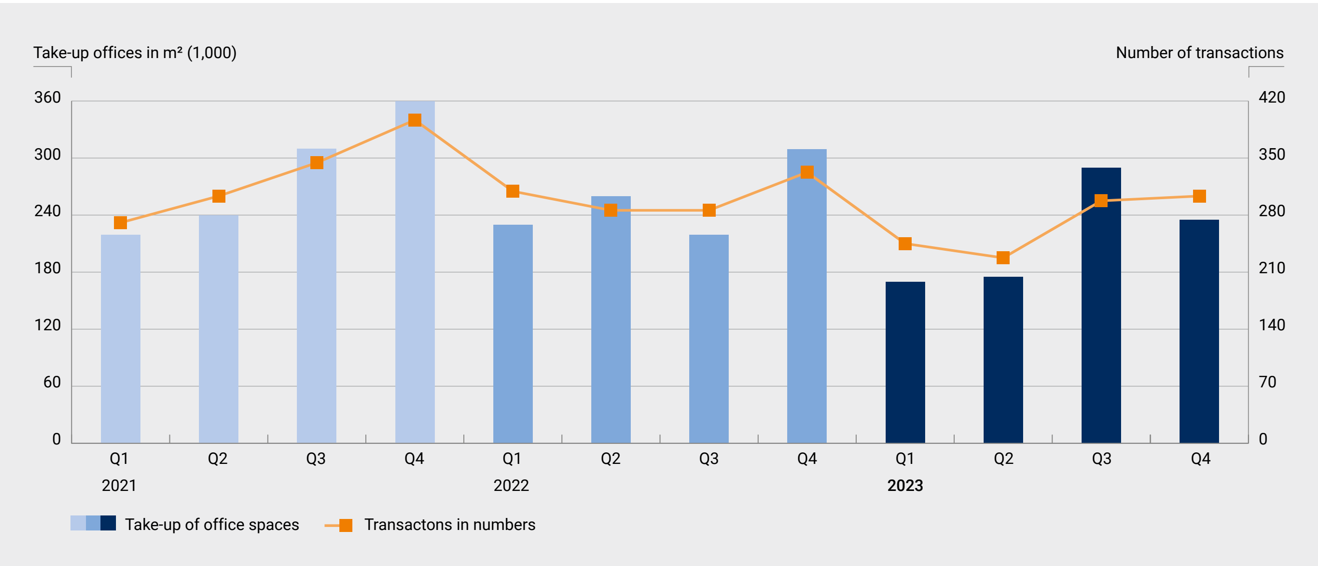
A few factors played a big role in the investment market last year. Increased mortgage rates, new tax rules and the shortage of good-quality properties. 2023 was the year in which many investors changed their investment strategy.

The biggest changes are taking place among residential investments. The new laws and regulations that are going to affect the level of rents are leading to major eviction actions.

A few factors played a big role in the investment market last year. Increased mortgage rates, new tax rules and the shortage of good-quality properties.

Canadian real estate fund Eres is therefore choosing to put their 6,900 Dutch properties up for sale. Selling the properties to another investor will be a difficult process given the amended laws and regulations and higher interest rates. Precisely for these reasons, many investors are shifting their focus from residential investments to commercial investments. Due to all these determining factors, the investment volume in 2023 dropped significantly. In 2022, investment transactions in the Netherlands were worth € 11,534,446,000, totalling 7,133,865 sqm. In 2023, it amounted to only € 4,392,893,500 and 3,699,398 sqm.

Office space take-up in the Netherlands 2021–2023



Source: NVM (Nederlandse Vereniging van Maakelars)

Outlook

2023 was a difficult year and 2024 will be the year in which the property market needs to be solution-oriented. There is still no shortage of demand despite the rise in interest rates. There is a shortage of housing, offices and logistics space. Supply and demand must start finding each other again. According to ‘Vastgoedmarkt, outlook 2024 (January 2024)’ the following six trends will be important and decisive in 2024:

1. **Interest rates fall**
Although the rise in interest rates seems done, it is still higher than in previous years. Dutch bank ING expects that interest rates will be on the same level to start falling in the second half of 2024.

2. **Fewer transactions**
Higher interest rates will obviously cause fewer transactions in the property market. Supply and demand must converge.

3. **Building differently**
The high interest rate also has a major impact on new construction. The high construction costs, nitrogen crisis, long procedures and the rapidly rising interest rates have caused several construction projects to come to a standstill, although the demand is there. Short-cycle thinking will have to start, not only the construction time has to be faster but also the process speed.

4. **Climate rules**
From 1 January 2024, ESG rules have been tightened, and, in 2025, this will apply to all companies and businesses in the Netherlands. This means that there will have to be accountability for the sustainability of property and business. This is a challenge for owners, but being ahead also offers opportunities in this regard.

5. **Office quality becomes more important**
Due to corona, people still work a lot from home. In many offices, ‘hybrid’ working is now common and this has major implications for the office market. Demand for office space will start to decline in the coming years. Companies consider the quality of the office the most important reason for relocation. Over the next few years, more and more companies will move to higher-quality but smaller offices. This will eventually cause vacancy rates to rise again.

6. **Artificial intelligence**
AI is developing at lightning speed and is also making its entry into the world of real estate. For real estate agents, determining property values or mapping sustainability, it is already a useful tool. Despite the real estate market being conservative, by 2024, the application of AI will become increasingly common.

2023 was a difficult year and 2024 will be the year in which the property market needs to be solution-oriented.

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