

2024/2025

# Residential Market

Facts, Trends & Outlook in Germany



Colliers

## Residential Germany



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# Housing remains attractive at new price levels thanks to positive overall conditions

High demand combined with low supply points to potential for upward rent trends across all segments

**82.7 million inhabitants**

As at the 2022 census date  
1.36 million fewer people than assumed in the previous population projection (-1.6%)

**-4% rental offers**

In the 50 largest cities  
in the past 12 months  
Even -30% since 2021

**+413,000 households**

In the 50 largest cities by 2035  
Growth of +3%

**294,400**

Housing completions in 2023  
-0.3% yoy

**663,000 people**

Net immigration in 2023  
799,000 fewer people than in the previous year with 1.45 million

**260,100**

Housing permits 2023  
-27% yoy

**+7% for stock units**

Rental growth in Germany's 50 largest cities  
in the past 12 months until Q2 2024

**826,700**

Backlog of permitted, but not yet built residential units  
2023 yoy decrease of -58,000

**+8% for new-build units**

Rental growth in Germany's 50 largest cities  
in the past 12 months until Q2 2024

**225,000**

Forecast housing completion for 2024  
-27% yoy

## Household growth remains long-term driving force on German housing markets

Population figures for 2022 were revised downward significantly with publication of the census results in June 2024. A total of 82.7 million inhabitants means that there are 1.36 million fewer people (-1.6%) living in Germany than assumed in the previous projection. This is likely to have a significant impact at a municipal level going forward in some cases, e.g. when planning new housing developments, infrastructure measures and utilities systems.

Demographics and urbanization nevertheless continue to hold onto their status as megatrends and are creating a favorable foundation for the residential segment. The increase in population due to migration in previous years lessened somewhat in 2023 but still managed to land roughly in line with the long-term average at around 663,000 people net. However, long-term forecasts point to higher population and household numbers, particularly in Germany's conurbations. A further increase of 413,000 households is predicted in the 50 largest cities by 2035, which will result in a further increase in demand for housing in a tight supply situation.

## Slump in housing construction fails to materialize in 2023 - negative outlook for new construction in coming years with ongoing strong rental growth

The German federal government fell short of its target of 400,000 new-build units per year (including 100,000 subsidized units) in 2023 and it is highly unlikely that this target will be met in the years to come. The number of new units completed in 2023 was surprisingly high at 294,400, representing a decline of only -0.3% yoy.

However, the 260,100 units that were permitted in the same period represent a 27% drop yoy. This will be strongly felt in the completion figures from 2025 onwards. A massive slump in housing construction seems inevitable and will keep pressure on rent prices high. These rose between 7% and 8% in both the stock and new-build segments in the 12 months prior to the summer of 2024. There is still a lack of strong political initiatives that could stage a comeback in construction activity and thus reduce excess demand.

\* Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Stuttgart

## The price correction phase is over - expect market recovery

Based on the long-term average, roughly €53bn is being poured into the German commercial residential market each year. These figures put the country's residential segment at about the same size as the overall commercial real estate segment. Total transaction volume across all residential segments was recorded at €33.4bn in 2023, down 35% yoy.

The institutional residential investment segment contributed €8.8bn to this result (down 38% yoy). In the residential and commercial mix property sector, which is mainly characterized by semi-institutional and private investors, nationwide transaction volume was 34% below the previous year's level at around €24.6bn. The 52 cities analyzed in the report posted a total of €13.2bn in this sector. Based on data from local real estate valuation boards, purchase prices in 2023 corrected 18% in Germany's 52 largest cities and 11% in the country's top 7 cities\*. This downward correction can particularly be attributed to developments in the first half of the year.

Repricing has now been completed on the market as a whole and the new price level that has been established is increasingly being accepted by market participants. We are beginning to see more attractive entry opportunities and we expect residential investment to remain a component of institutional portfolios going forward. Investors will continue to focus on new, ESG-compliant portfolio assets as well as on larger portfolios.

The first major transactions recorded in the new-build and forward-deal segments in 2024 serve as indicators that demand is growing in this segment as well. Institutional capital with a focus on private equity and equity-heavy players such as family offices are expected to stimulate demand buy side, while we expect large portfolio owners, property developers and distressed sellers, in particular, to be more active in the medium term sell side due to liquidity pressure, which will increase supply on the market.

Overall, we expect transaction activity to pick up in 2024/2025, both in the semi-institutional residential and commercial mix property segment and in the institutional investment segment, generally characterized by stable yield levels and improved product availability. Market momentum, however, will largely depend on further interest rate moves by the ECB, the selling and portfolio streamlining activities of large portfolio owners and on properties being listed due to insolvency.



# German residential market

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Uncertainty remains high

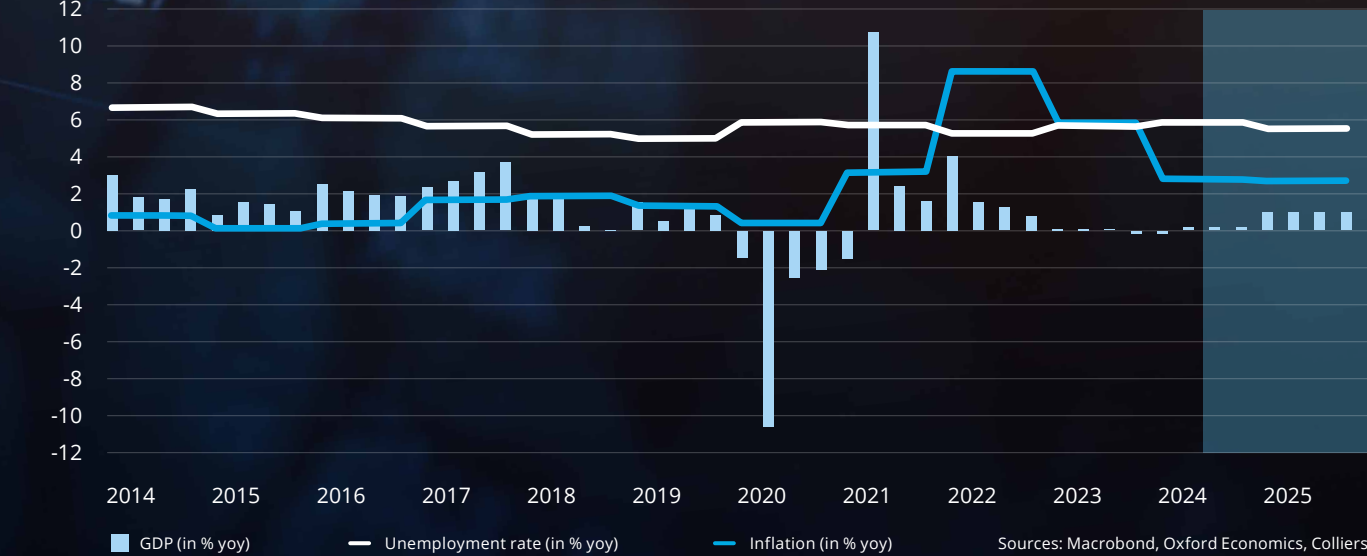
# Stronger growth not expected before late 2024

The German economy continued to tread water in the summer of 2024. The current consensus forecast predicts slight 0.2% GDP growth for 2024. We have also not seen any indications of imminent recovery in the ifo Business Climate Index in recent months. Although the overall index has fallen slightly since spring, it is still significantly higher than in the two years prior. There is a chance that we may see a slight improvement in the economic environment in the second half of 2024 and continuing on into 2025. The consensus forecast for Germany predicts economic growth of 1.1% in 2025.

The fact that the job market remains very stable is quite positive with the unemployment rate only expected to

experience a slight uptick in 2024. As inflation rates fall, current collective bargaining agreements are triggering a favorable real wage trend that will support private consumption and have a positive impact on the housing market.

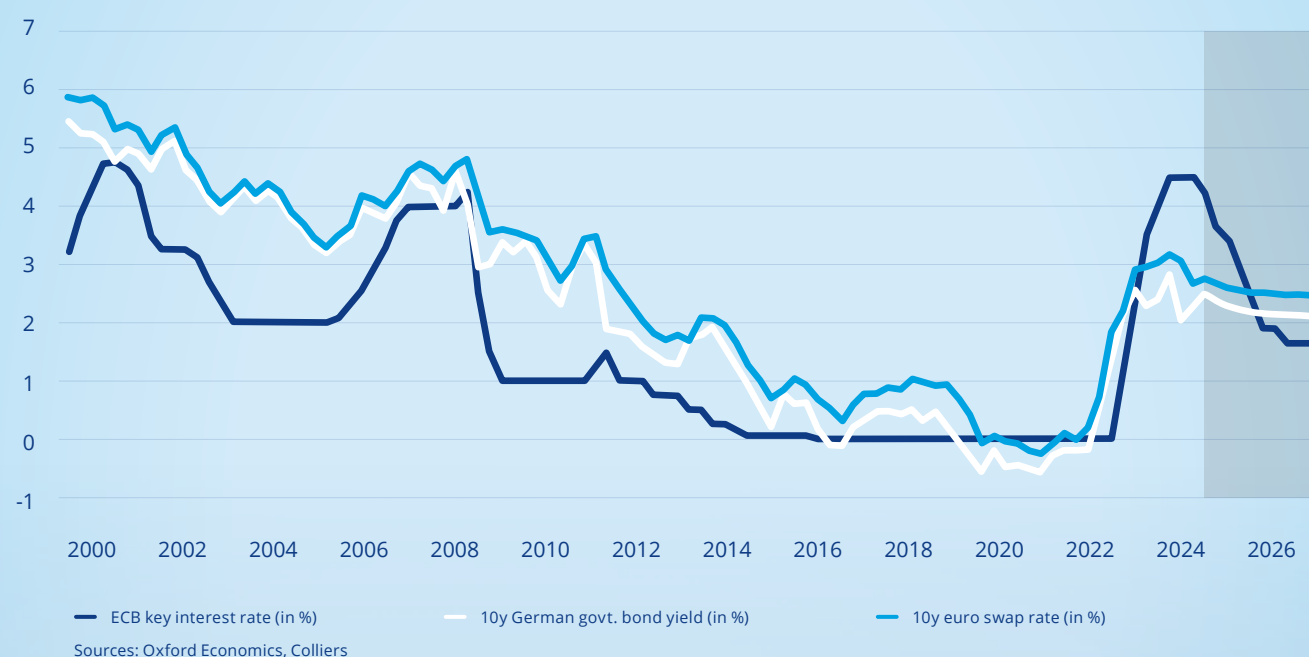
Inflation rates in Germany and in the eurozone have recently moved closer to the 2% mark, although they have yet to reach this target. The ECB responded to this situation with its first two interest rate cuts in June and September at a total of 50 bps. The consensus forecast currently anticipates an average of three further interest rate cuts over the course of this year and puts interest rates at 3.55% at the end of 2024.





## Financing environment

## The ECB's rate cutting cycle has begun

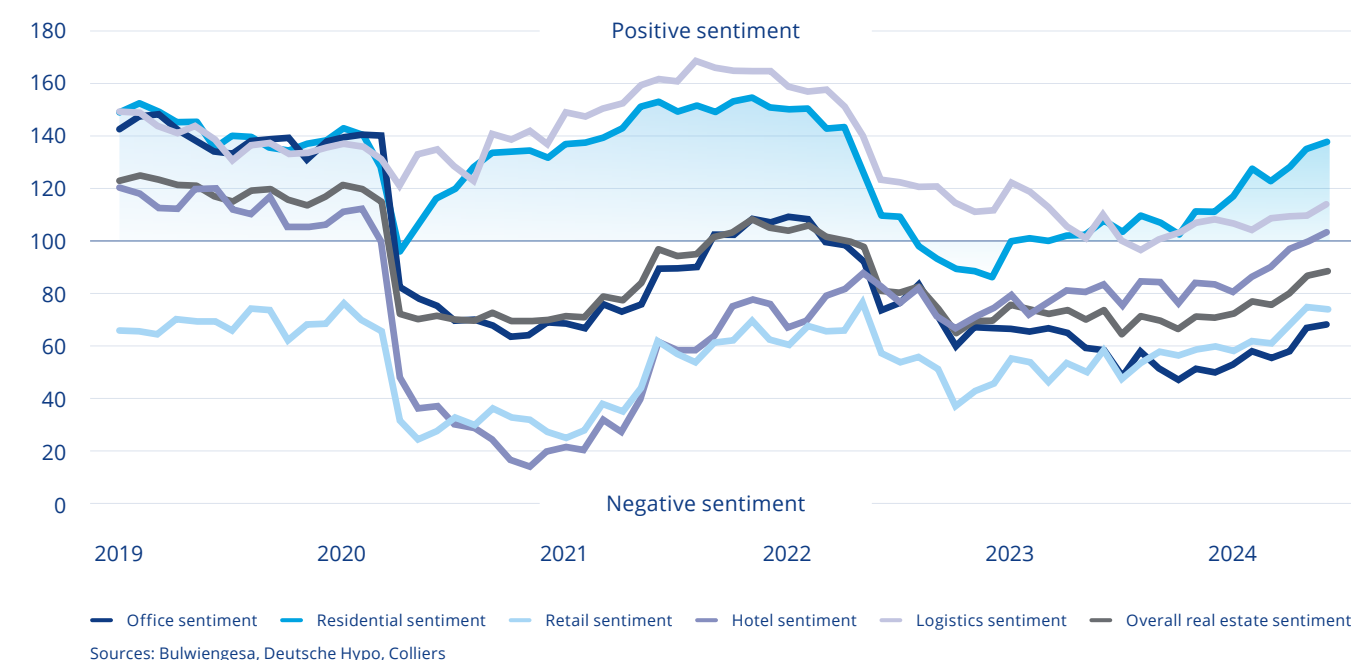


The ECB's first two interest rate cuts to date have not had an impact on the long end of interest rates, which have even ticked up slightly since the start of the year. 10-year swap rates moved in a narrow range of between 2.7% and 2.9% in Q2 2024 and 10-year German government bonds recently fluctuated between 2.35% and 2.7%.

In its forecast, Oxford Economics expects these to remain stable within the current range. Although this situation is unlikely to fuel activity on the real estate market by significantly lowering conditions around financing, it will make it easier to plan with less volatility than was the case in 2023.

## Real estate sentiment

## Sentiment around housing remains favorable



We saw an overall improvement in investor sentiment by the summer of 2024 with a favorable trend across all asset classes. Sentiment around the traditional commercial real estate asset classes of office and retail, however, has yet to recover. Residential real estate is currently being cast in a positive light and the asset class is steadily increasing its lead over logistics and hotel. Sentiment towards residential assets has been improving since December 2022. Taking stock at mid-year 2024, we see a positive shift in sentiment with a recent score of 141.5.

Favorable here is the upward trend behind overall real estate sentiment in the past few months, which again hit over 90 points in mid-2024. This is the highest we have seen the indicator since spring 2022, which was immediately before the market correction.

The favorable outlook on residential investment in an overall still somber real estate market environment highlights the position that the residential sector enjoys on the institutional investment market. Residential assets stand out thanks to granular cash flows and a low correlation to economic activity, especially during negative and challenging market phases. This trend is ongoing and is creating a favorable foundation for developments in the residential sector in the coming months and years.



Urban areas will continue to boom

# Favorable long-term demographics

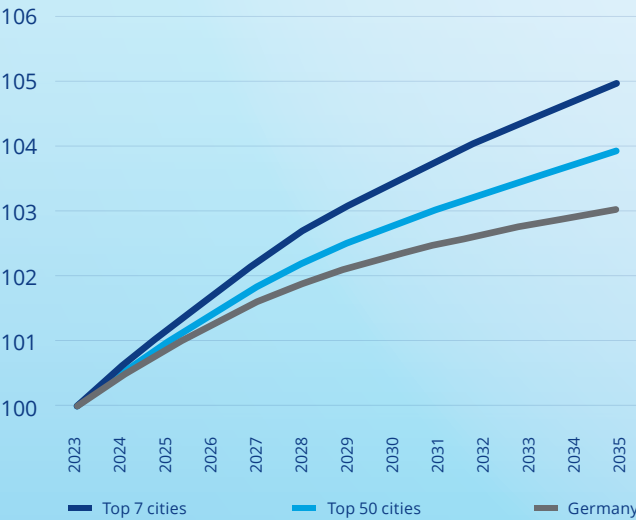
Germany's population was recorded at 82.7 million people in the June 2024 census publication. These results were based on the census taken as at May 2022. Although the country's population has increased by around 2.5 million since the last census almost 10 years ago, these current figures indicate that the German population is actually 1.6% lower with 1.4 million fewer people than previously assumed on the basis of population projections. These latest figures and their impact have not yet been incorporated into the available official statistics. However, the long-term upward trend in the country's population remains intact.

The long-term household growth forecast is favorable and is fueling demand on the housing markets. Based on the latest forecasts, Germany's population is expected to experience a slight decrease of roughly 1% by 2035. The number of households, however, is expected

to increase over the same period with above-average growth in the country's economically strong urban areas. Household numbers in Germany as a whole are expected to grow 3% with more than 1.3 million new households. Growth forecasts for the country's 50 largest cities are as high as 3.9% with 4.9% expected in Germany's top 7 cities. Considerable changes in household structure are behind rising household numbers as well as the negative trend in total population. The number of small 1 and 2-person households is growing at an above-average rate, particularly in cities and in the country's conurbations. This trend is causing a significant shift in demand for and in the structure of housing. More smaller residential units are particularly needed as a result, while demand for larger units is likely to be more limited. Although this shift does bring with it some challenges, it also creates new opportunities such as micro-apartments, a model that is becoming more established in the residential segment.

## Household forecast

Index 2023 = 100



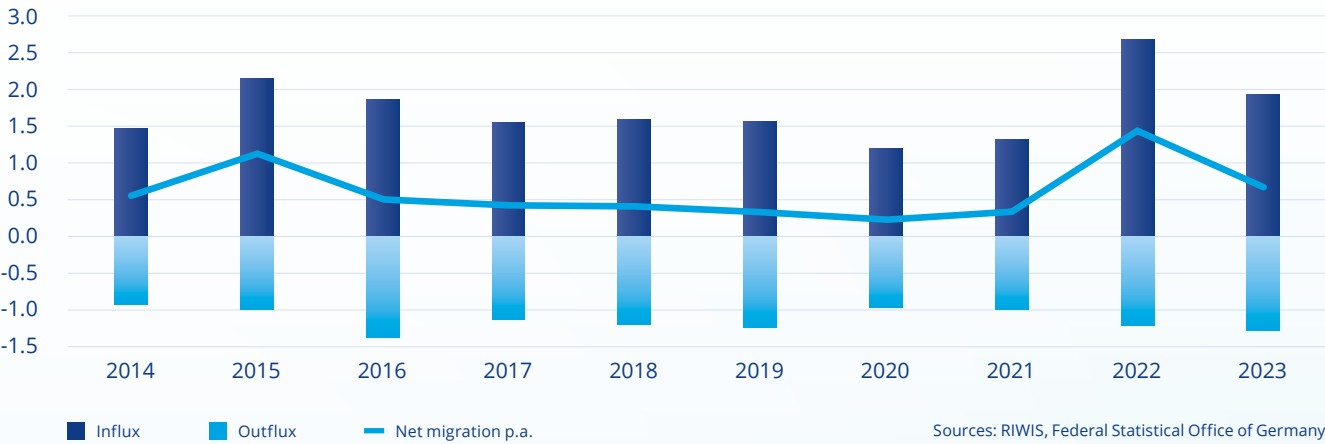
Sources: RIWIS, Federal Statistical Office of Germany

Households	2023	2035	2023-2035 total	2023-2035
Berlin	2,212,690	2,334,838	122,148	+5.5%
Düsseldorf	348,635	361,514	12,879	+3.7%
Frankfurt am Main	443,348	471,562	28,214	+6.4%
Hamburg	1,115,503	1,168,401	52,898	+4.7%
Cologne	605,529	627,991	22,462	+3.7%
Munich	883,957	929,861	45,904	+5.2%
Stuttgart	350,123	359,067	8,944	+2.6%
Top 7	5,959,785	6,253,234	293,449	+4.9%
Top 50	13,019,682	13,526,782	507,100	+3.9%
Germany	43,690,856	45,003,568	1,312,712	+3.0%

Sources: RIWIS, Federal Statistical Office of Germany

## Migration from abroad

in millions



Sources: RIWIS, Federal Statistical Office of Germany

Population growth in recent years has been strongly driven by very high immigration figures triggered in particular by refugee movements from Ukraine in 2022, which brought with them a historic increase in migration to Germany of 1.45 million people. Although this trend eased in 2023, resulting in net migration of 662,000 people for the year as a whole, this is still the second-highest net migration the country has seen since 2015. This number came to roughly 10% above the annual average of the past 10 years in 2023. This lower net migration did not provide any relief

on the housing markets, however, as significantly lower inflation and, therefore, improved security around financial planning for many households resulted in stronger demand for housing combined with a greater willingness to move.

The ongoing polarization between regions with growing and shrinking populations will continue going forward and pressure on the housing markets will remain historically high overall, despite the adjusted population figures.

## Influx into Germany's top 7 cities

	2019	2020	2021	2022	2023	5-year total
Berlin	184,744	142,923	166,524	235,365	187,971	917,527
Düsseldorf	42,712	36,397	38,230	49,422	42,036	208,797
Frankfurt am Main	66,140	50,592	53,046	68,759	57,921	296,458
Hamburg	97,239	85,885	87,108	124,493	105,665	500,390
Cologne	62,080	51,109	52,006	71,091	62,375	298,661
Munich	111,306	93,973	106,216	136,909	117,748	566,152
Stuttgart	48,058	39,536	41,307	53,969	45,731	228,601
Total	612,279	500,415	544,437	740,008	619,447	3,016,586

Sources: RIWIS, Federal Statistical Office of Germany, state statistical offices

Migration in recent years has heavily targeted Germany's urban areas. More than 3 million people have moved to the country's top 7 cities in the past 5 years alone. This reflects 35% of the nationwide influx, although this number was previously even higher at up to 42% in some cases. Following 2022's above-average growth, the number of people moving to the country's top 7 cities

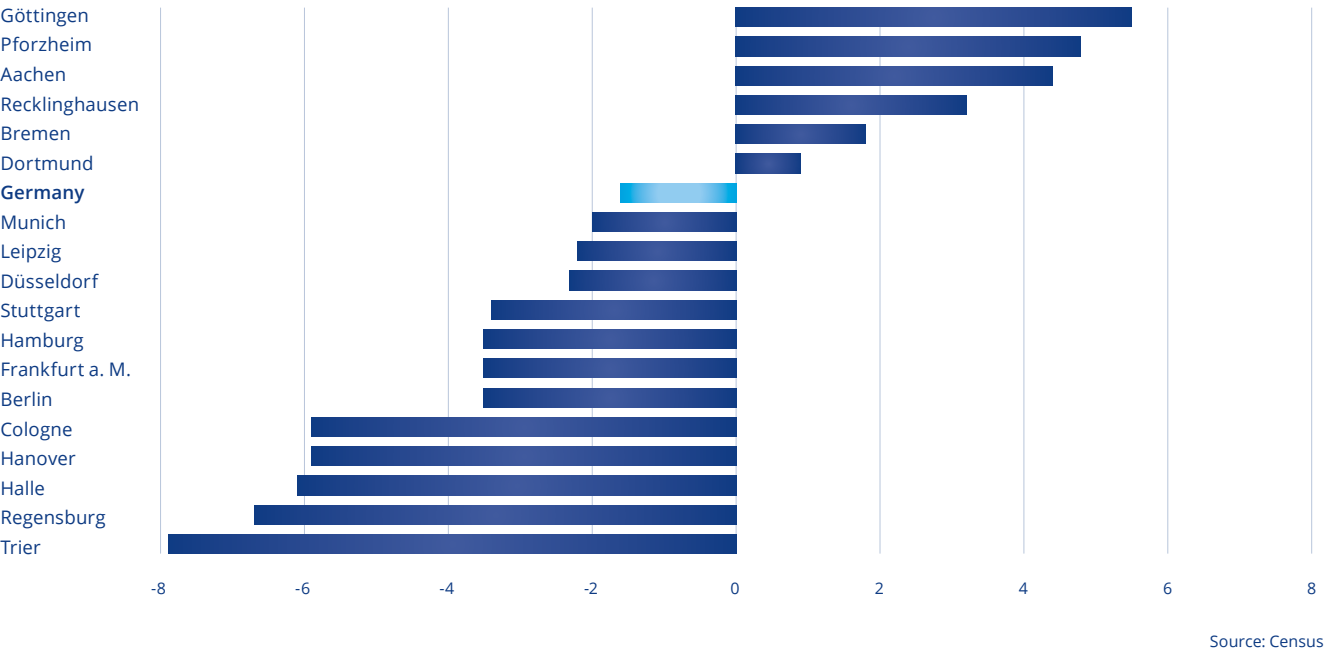
dropped an average of 16% in 2023 to around 619,500. The national average was down 28% in comparison. While the number of people moving to Berlin was down 20% yoy, Cologne saw a significantly lower drop of 12%. In general, however, interest in moving to Germany's large cities remains high, making this a strong driver of demand for housing.



# 2022 Census

## Key results

### Deviation of census population from previous projection (sample cities) in %

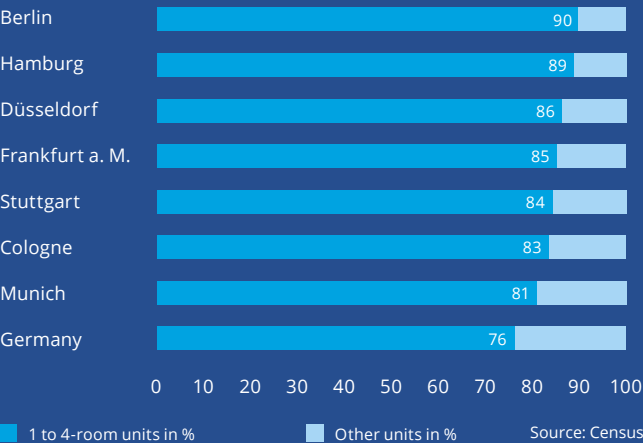


### Demographics

The census is a statistical survey typically carried out in Germany every 10 years. The 2022 census is only the second (after 2011) conducted since German reunification. The 2022 census delivered surprising results, as did the 2011 census. As of May 2022, around 82.7 million people were living in Germany, 2.5 million more than in 2011. This, however, puts the population at 1.4 million fewer people (-1.6%) than previously assumed in the projections. A look at state and municipal levels paints

a more varied picture with the new numbers giving more than half of the country's municipalities lower population figures than previously projected. This deviation in the data could have real consequences for Germany's municipalities, e.g. when it comes to allocating tax revenue as well as infrastructure planning and designating new development areas and space for daycares, schools and care facilities.

### Residential stock by type



### Residential stock

Total housing stock in Germany comes to 43.1 million units, 5.8 million (13%) of which were built after 2000. The country's top 7 cities account for 5.4 million units with 640,000 (12%) of these newly built since 2000. Traditional 1 to 4-bedroom apartments tend to dominate the landscape, ensuring housing supply particularly in the cities. These currently account for 32.8 million units in total (76%). Among Germany's top 7 cities, this figure ranges from 81% in Munich to 90% in Berlin.

### Key housing figures

43,106,589

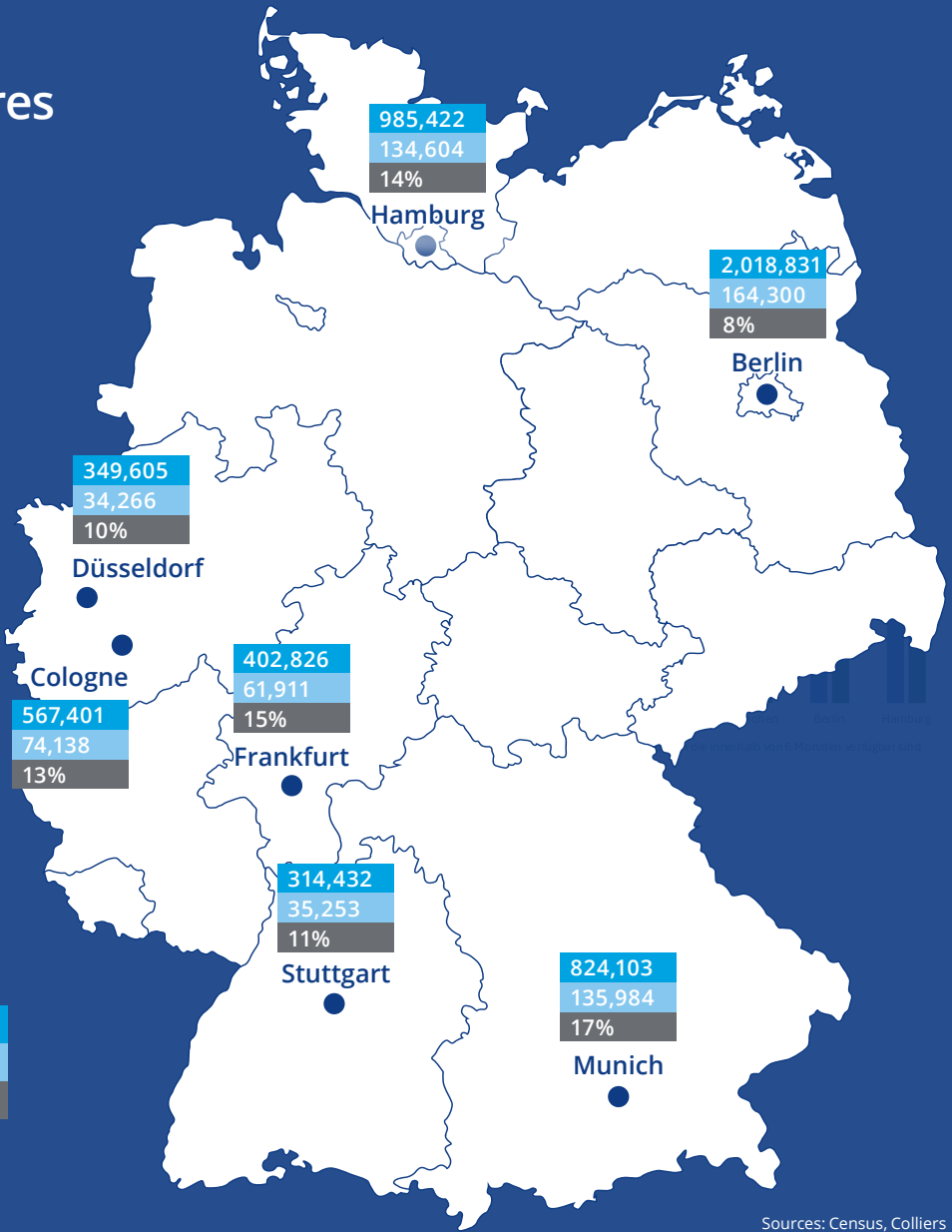
Total units

5,797,722

Units built after 2000

13%

Share of units built after 2000





# 2022 Census

## Key results

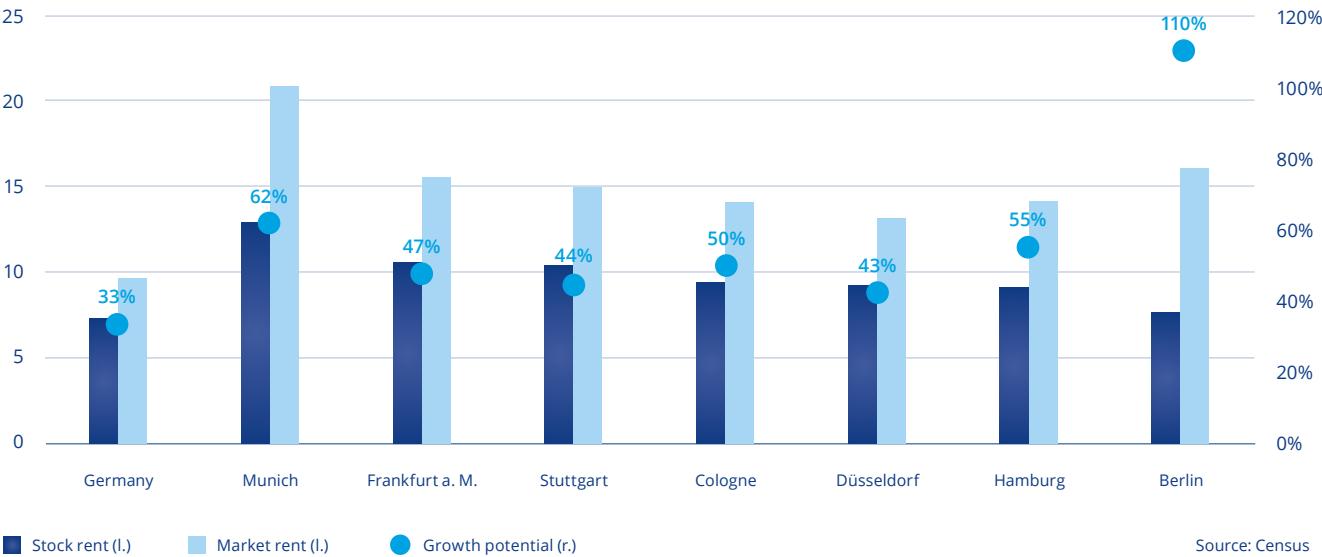
### Rents

Average net cold rent in Germany came to €7.28 per sqm as of May 2022 with rents in the country's top 7 cities posting an average of €9.90 per sqm. These rent prices are low compared to the market rents currently being asked in new lease situations where there is currently tremendous potential for increasing asking rents. This currently comes to roughly 33% nationwide and significantly more in most of the country's top 7 cities.

Differences based on building age are quite significant as well. Take Berlin for example, where average basic net rent for an apartment in a building constructed the 1980s currently comes to €6.42 per sqm and to €12.64 per sqm for an apartment in a building built 2016 or later. These enormous spreads can be found in all major cities.

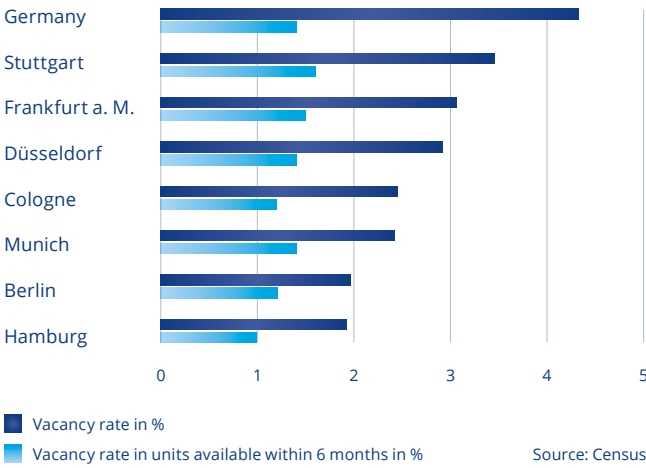
### Stock rent, market rent and growth potential

in €/sqm and %



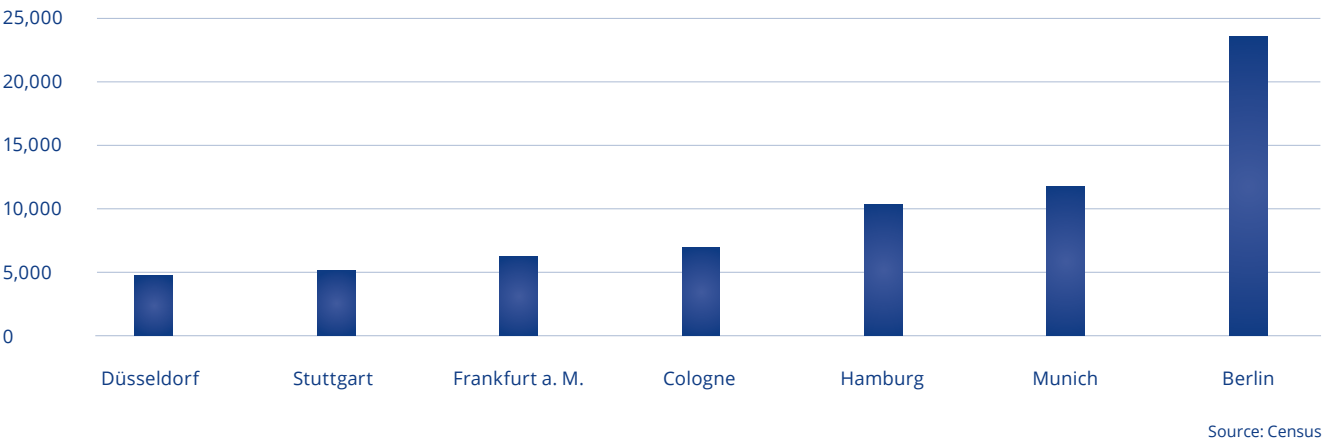
### Vacancy

The 2022 census puts the vacancy rate at 4.3%, which corresponds to 1.9 million units. The vacancy rate in Germany's top 7 cities comes to between 2.1% and 3.5%, well below the national average. The vacancy rate for units available for immediate tenancy (units that can be let within 6 months) is significantly lower in contrast. That means there are only around 68,300 residential units available for immediate tenancy in the country's top 7 cities, reflecting a vacancy rate of 1.4%. The assumed potential of vacant units boosting housing supply is therefore in reality quite low, also as the majority of vacant units are located in rural regions instead of urban areas.



### Vacancy in units available for rent within 6 months

Number of units



### Energy efficiency

Renewable energy has played a lesser role to date, although one in four new-build units since 2016 have heat pumps installed. These figures on energy efficiency

indicate that there is still considerable potential for improvement when it comes to achieving climate targets, particularly in stock units.



75% of all residential units in Germany are heated with gas (56%) or oil (19%) and another 15% with district heating.



The use of renewable energy sources for heating residential buildings has also played a lesser role to date.



Only 4% of all units are heated with wood or wood pellets.



Only 3% use solar, geothermal energy or exhaust air heat recovery (usually via heat pumps).



Residential construction surprisingly stable in 2023

# Residential construction continues to fall well short of targets

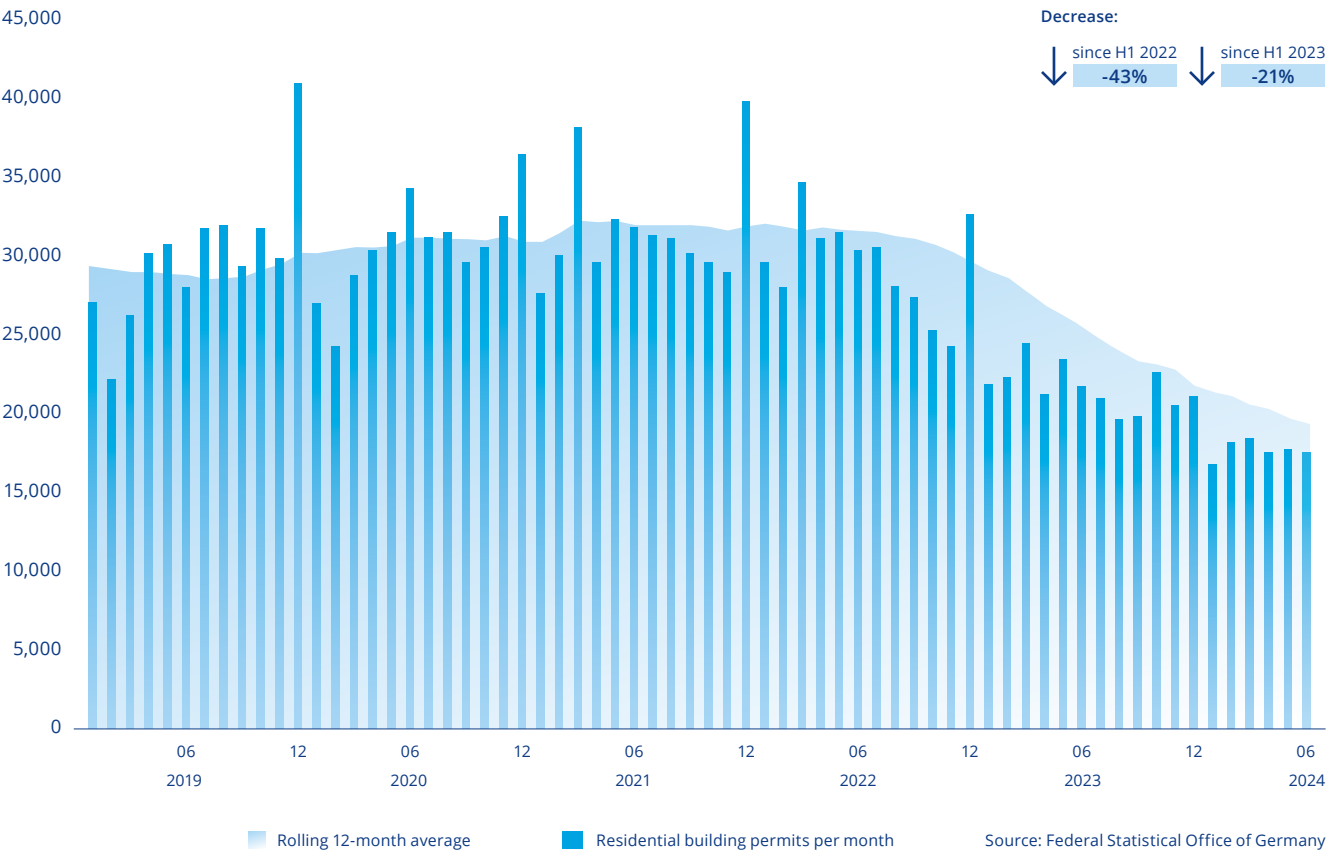
Residential construction in thousands



Construction backlog of units permitted but not yet built



## Residential building permits



The trend in housing construction in Germany was positive from 2008 until 2020 with annual completion rates rising almost continuously. The number of new units built each year remained generally stable in the following years up to 2023. The annual result for 2023 was surprisingly favorable with 294,400 new-builds, down just 0.3%. The multifamily segment, which represents the most common and urgently needed type of rental residential housing, accounted for roughly 156,300 of these units (53%). We should not, however, let these apparently positive figures obscure the fact that the German government failed to hit its target of 400,000 new-build units by quite a wide margin this past year.

There are signs of a significant trend reversal in new residential construction that will have drastic consequences supply side in 2024 and in the coming years as well. The number of residential permits issued in 2023 was down 27% and experienced a 21% yoy drop in H1 2024. Only 106,500 residential units were issued permits in the first six months of 2024. Current forecasts looking at newly built and completed units in the coming years are dramatic. The ifo Institute expects residential completions to fall below 200,000 units in 2025 and 2026. Based on these forecasts and the anticipated new-build figures,

we can expect to see the housing supply continue to shrink, and, as a result, rent prices to rise significantly across all residential usage segments in the next 2 to 3 years at the very least.

A total of around 826,700 residential units have been permitted but not built in the past several years. This construction backlog decreased by 58,000 units yoy this past year as a result of the still surprisingly high number of new-builds. Looking at Germany as a whole, however, these figures only reflect an 83% completion rate of units that have been permitted and actually built. The fact that not enough permitted units are being built has resulted in an additional housing deficit of almost 210,000 residential units in Germany's largest 50 cities over the past 10 years.

Against a backdrop of tremendous demand and very limited available space in the country's urban areas, these figures highlight the weaknesses and inefficiencies in residential construction in Germany. Even a complete reduction in permit surplus, which currently still comes to roughly 826,700 units, would only partially improve the housing shortage in the country's growth cities.



Residential construction and completion rates

Only 83% of permitted residential units built in past 10 years

Completion rates in residential construction, calculated as the ratio of units permitted to those actually built, exhibit significant variation in Germany's largest cities and act as an indicator of the effectiveness of residential construction at a local level. Only about 83% of all permitted residential units were actually built on average over the past 10 years.

The country's top 7 cities also exhibit considerable differences in this latest report, coming in still below the national average with a completion rate of 78% but up a slight 2% yoy. While Stuttgart, Hamburg, Cologne and Frankfurt set themselves apart from the rest of the pack with above-average rates, Berlin in particular continues to considerably underperform in terms of residential construction at only 71% despite a slight improvement (previous year: 68%).

In the past 10 years, Stuttgart, Krefeld, Leverkusen, Mainz, Hanover, Freiburg, Münster, Saarbrücken and Essen have posted very high completion rates of more than 90%, reflecting favorable, targeted construction progress.

If we look at the overall figures, permits have been granted for a total of around 3.39 million residential units in Germany over the past 10 years with only around 2.82 million of these built during the same period. That means that almost 567,400 fewer residential units were added to the market than would have been possible. This number is roughly equivalent to the volume of nationwide new-build construction that can be completed in just under two years. In the wake of the surprisingly favorable new-build results for 2023, however, these figures represent a slight improvement compared to the previous year in which 660,000 permitted units were not built. This has resulted in positive catch-up effects.

Nevertheless, the tight situation on the housing markets has not improved and continues to intensify, driving up rent prices as a result. With the current situation on the residential market so tight, the low completion rate of 83% points to the pressing need for an effective housing policy.

3,392,773  
Permits in Germany  
past 10 years

2,825,377  
Completions in Germany  
past 10 years

83%  
Completion rate\* 10-year average  
in Germany

1,010,391  
Permits past 10 years  
in the 52 cities surveyed

800,508  
Completions past 10 years in  
the 52 cities surveyed

79%  
Completion rate\* 10-year average  
in the 52 cities surveyed

\* The completions rate corresponds to the share of permitted units that were actually built.

Residential construction

Permits, completions and completion rates in the past 10 years in the 52 cities surveyed

City	Permits past 10 years	Completions past 10 years	Completion rate* in %
Stuttgart	17,284	17,598	102%
Krefeld	2,709	2,757	102%
Leverkusen	3,320	3,191	96%
Mainz	10,376	9,923	96%
Hanover	19,614	18,081	92%
Freiburg	10,039	9,177	91%
Münster	18,264	16,530	91%
Saarbrücken**	5,994	5,417	90%
Essen	11,201	10,080	90%
Potsdam	14,875	13,215	89%
Oldenburg	11,748	10,431	89%
Bonn	14,772	12,824	87%
Augsburg	14,664	12,719	87%
Cologne	33,618	28,909	86%
Brunswick	6,110	5,238	86%
Hamburg	99,925	85,579	86%
Osnabrück	5,036	4,303	85%
Gelsenkirchen	2,752	2,344	85%
Lübeck	8,206	6,774	83%
Dortmund	17,727	14,497	82%
Mülheim an der Ruhr	4,338	3,540	82%
Bremen	19,177	15,633	82%
Heidelberg	6,572	5,356	81%
Frankfurt am Main	51,264	41,741	81%
Ludwigshafen	5,290	4,300	81%
Hamm	5,030	4,084	81%
Aachen	8,027	6,463	81%
Wiesbaden	12,613	10,150	80%
Mannheim	12,936	10,338	80%
Hanau***	15,510	12,353	80%
Erfurt	5,927	4,712	80%
Kassel	4,869	3,825	79%
Mönchengladbach	6,193	4,837	78%
Munich	101,036	78,906	78%
Karlsruhe	8,498	6,619	78%
Hagen	1,993	1,543	77%
Wuppertal	4,445	3,436	77%
Oberhausen	3,574	2,726	76%
Düsseldorf	29,765	22,698	76%
Bielefeld	13,587	10,147	75%
Nuremberg	25,313	18,770	74%
Darmstadt	9,781	7,249	74%
Dresden	31,527	23,289	74%
Offenbach	8,604	6,254	73%
Halle	4,830	3,473	72%
Kiel	7,446	5,345	72%
Magdeburg	10,044	7,185	72%
Berlin	210,186	149,981	71%
Bochum	7,547	5,351	71%
Duisburg	7,895	5,596	71%
Leipzig	32,186	21,377	66%
Chemnitz	6,154	3,644	59%

\* The completion rate corresponds to the share of permitted units that were actually built.

\*\* Data refers to the Regionalverband Saarbrücken district.

\*\*\* Data refers to the Main-Kinzig district.

Sources: Federal Statistical Office of Germany, state statistical offices, RIWIS

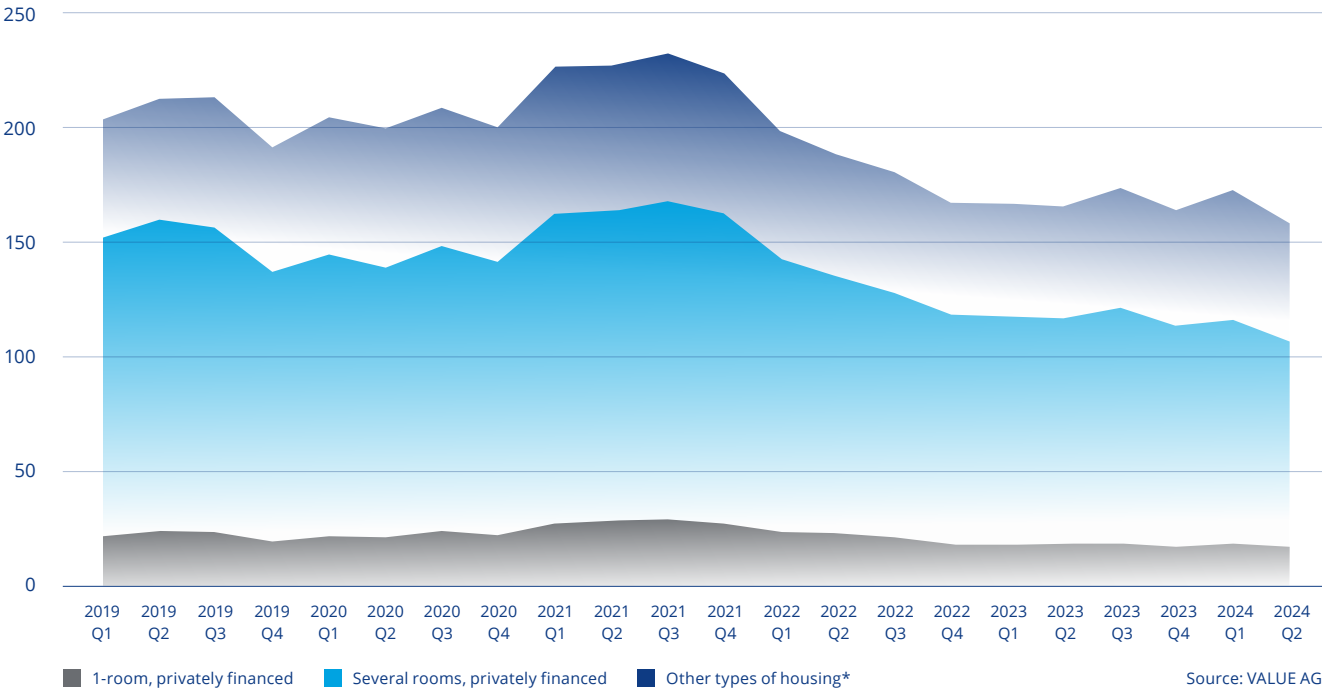


Access to privately financed units continues to drop

# No improvement in supply and availability expected

## Rental offers by segment

In thousands



The supply of residential units available for rent has fallen steadily in almost all German cities in recent years, although the steep drop in supply we saw between mid-2021 and mid-2023 has slowed in the past 12 months. Although population influx from abroad was weaker in 2023, demand for rental housing has nevertheless risen overall as people are again proving more willing to move thanks to lower inflation and the ability more effectively plan financially, which has meant increased demand.

As at mid-2024, the supply of rental units in Germany's 50 largest cities was down a mere 4% yoy. This trend, however, varies depending on which factors are being considered. The availability of traditional 1 to 4-bedroom rental units in the

privately financed segment has dwindled significantly. By mid-2024, the number of available units had fallen 9% yoy, with this segment being particularly sought after. The number of small 1-room apartments in the privately financed segment was also down 9%.

Supply of other types of housing, including micro-apartments, serviced apartments, co-living and commercial models such as boarding houses was up 6% yoy in contrast. These segments play an important role in boosting the housing market as they offer access to housing, usually on a temporary basis, particularly to small households and those looking for temporary situations. The share in total housing in cities claimed by these types of use is up to over 30% in some cases. Although the downward trend in available rental housing has recently slowed and other types of housing are providing some relief, a reversal of this trend or even an improvement in the supply situation remains unrealistic for the time being due to the expected slump in new residential construction over the next few years. We can expect the situation on the market to remain tight, which will cause rent prices to continue to rise.

## Rental offers in Germany

	12 months	24 months	36 months
Other types of housing*	↑ +6%	↓ -3%	↓ -18%
Privately financed units	↓ -9%	↓ -21%	↓ -35%
Total offer	↓ -4%	↓ -16%	↓ -30%

Sources: VALUE AG, Colliers

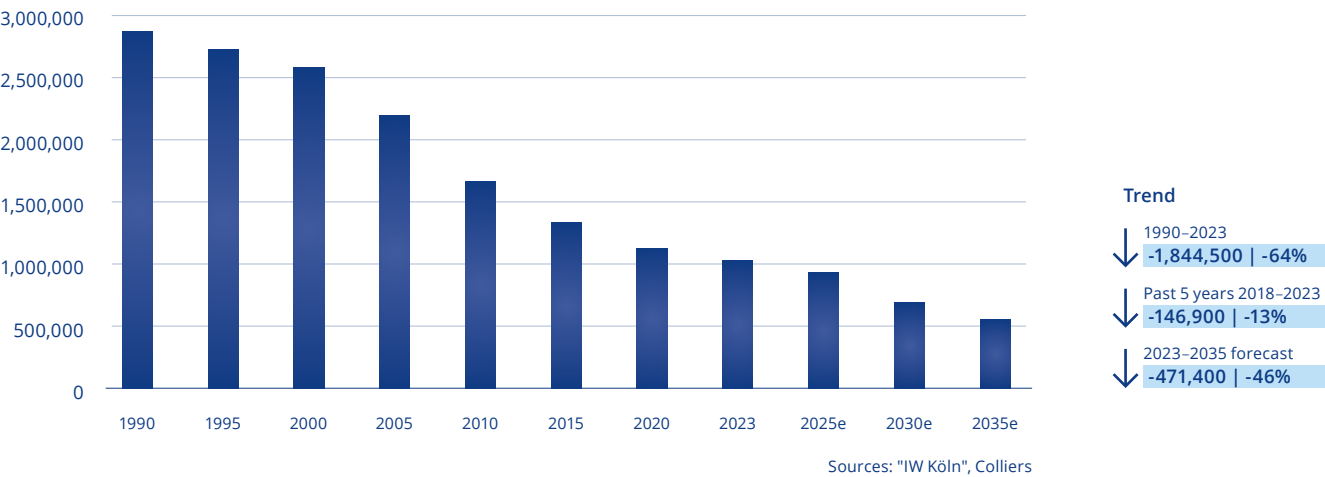
\* Other types of housing = micro/student apartments, boarding houses, co-living, temporary and/or commercial housing models, etc.



Subsidized rental housing stock  
down two thirds since 1990

# Subsidized housing in Germany on the decline

Subsidized housing stock



The number of subsidized residential units in Germany has dropped significantly since the 1990s. While stock after reunification was still around 2.9 million, there are currently only around 1 million subsidized units in the country. Key reasons for this decline include the fact that rent control has expired on many of these units and new construction activity continues to fall short of the government's target of 100,000 new subsidized residential units per year. With completion rates failing to hit this target for years now, we can expect the drop in availability to intensify drastically going forward. Forecasts expect the availability of stock units to plummet by roughly 471,400 residential units by 2035 with only around 554,000 subsidized units remaining at that time.

A drop in subsidized housing will bring with it serious consequences, including exacerbating the housing shortage for low-income households, particularly in large cities, which will boost demand for affordable rental units on the open market. Rents in that segment, however, tend to be generally higher. Average rents for subsidized units in Germany's top 7 cities were recorded at €8.15/sqm with privately financed units going for an

average of €14.90/sqm. There is an enormous price difference between subsidized units and those on the open market. Rent prices for privately financed units in the country's top 7 cities are 80% higher than those being paid for subsidized housing with no signs of a trend reversal.

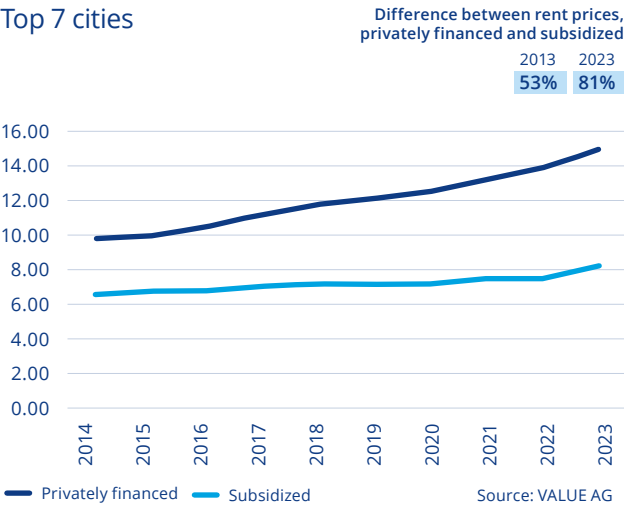
Providing subsidized housing needs to be encouraged in order to meet the housing needs of low-income households. There are different ways to encourage the creation of subsidized housing, including offering subsidized loans, grants or guarantees, for which the German federal government alone is planning to earmark roughly €18bn by 2027. If we also take potential subsidies from the German states into consideration, we could see up to €45bn being put into subsidized housing during that time.

Rent prices for subsidized units are guaranteed under contract for a long period of time, which could make them increasingly attractive to investors despite the lower rent levels. Another attractive aspect aside from secure long-term cash flow is ESG.

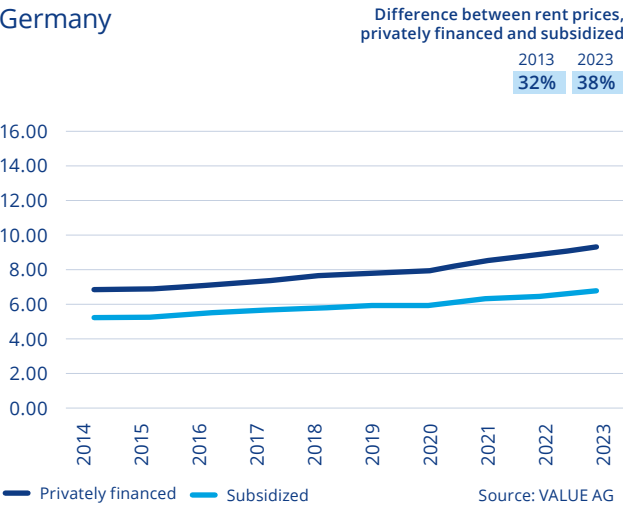


## Average rents for privately financed units and subsidized units in €/sqm

Top 7 cities



Germany





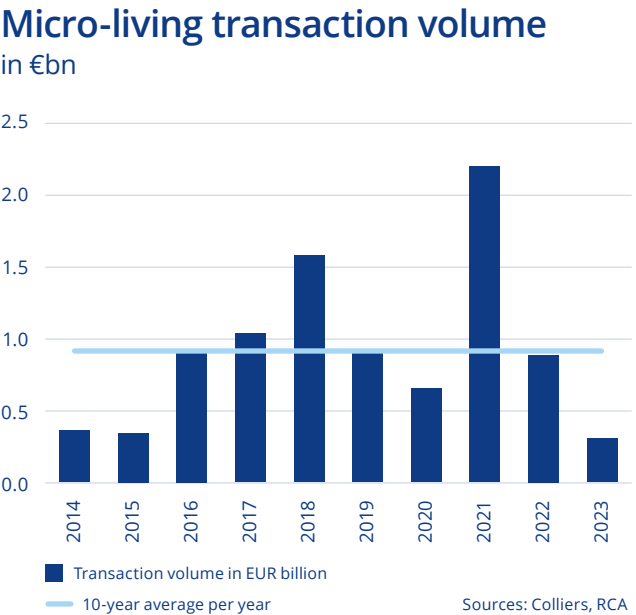
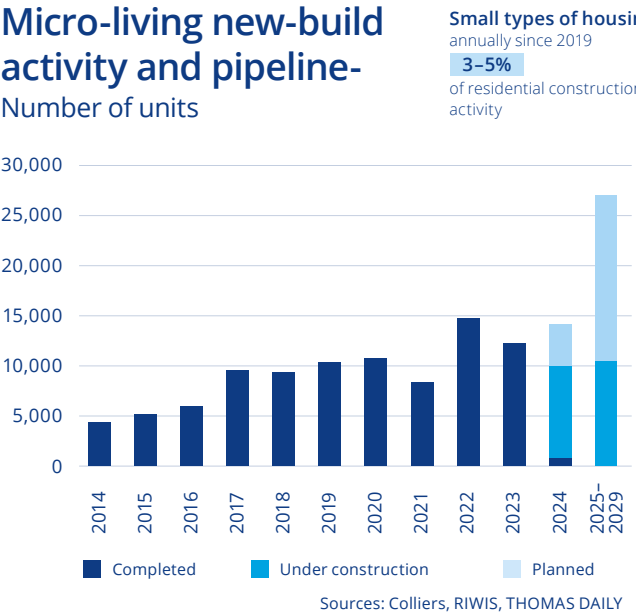
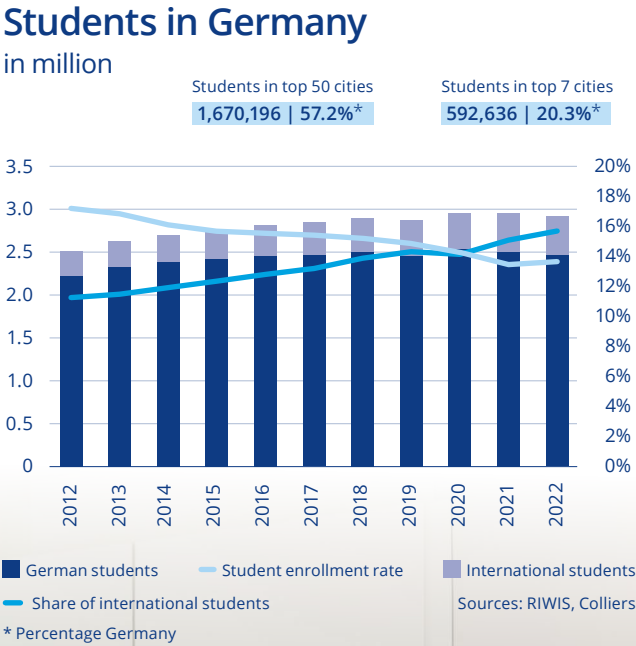
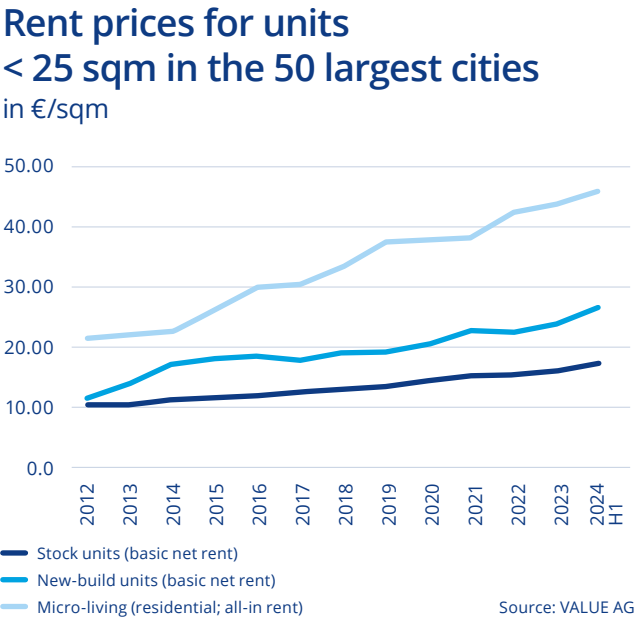
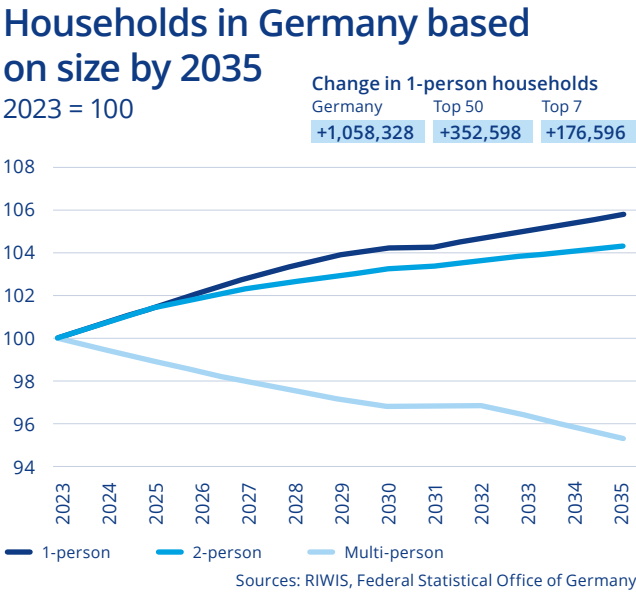
Niche product with potential

# Micro-apartments - an attractive and increasingly sought-after type of housing

With many people finding it more challenging to gain access to the housing market due to high demand, rising rent prices and shrinking supply, which goes hand-in-hand with the drop in the number of available privately financed units, demand for alternative types of housing is on the rise among tenants and investors alike.

Demand is being primarily driven by small single households, often students and especially first-year students, international students and professionals, especially those with temporary local jobs that require flexibility around location and timing. These groups are increasingly in the market for small-scale, often temporary, living space in niche segments. The variety of types of use available such as micro-apartments, serviced apartments, co-living

and commercial models like boarding houses continues to grow. These segments have an important role to play on the housing market, as they ensure access to housing, if only on a temporary basis. The share in total housing in cities claimed by these types of use is up to over 30% in some cases. Their popularity with investors is growing as well as these types of use generally offer higher yields, stronger rental momentum and higher total rent prices, mostly in the form of all-in rent that includes ancillary costs, than what we find with traditional residential investments. Demand from tenants and investors is expected to rise in this segment over the next few years with a current long-term annual average transaction volume of €920m.

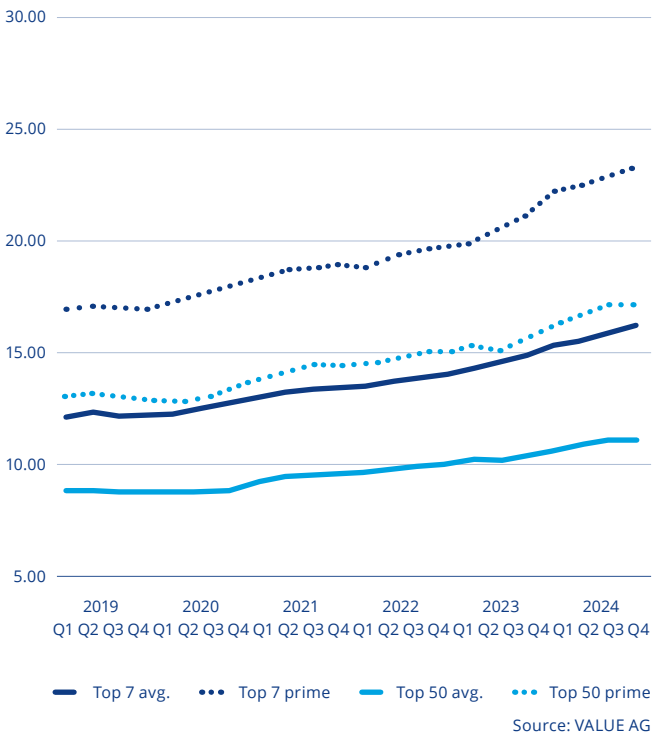




Supply shortage accelerates rental growth

# Rents to continue to rise in coming years

## Rent prices\* for stock units in €/sqm

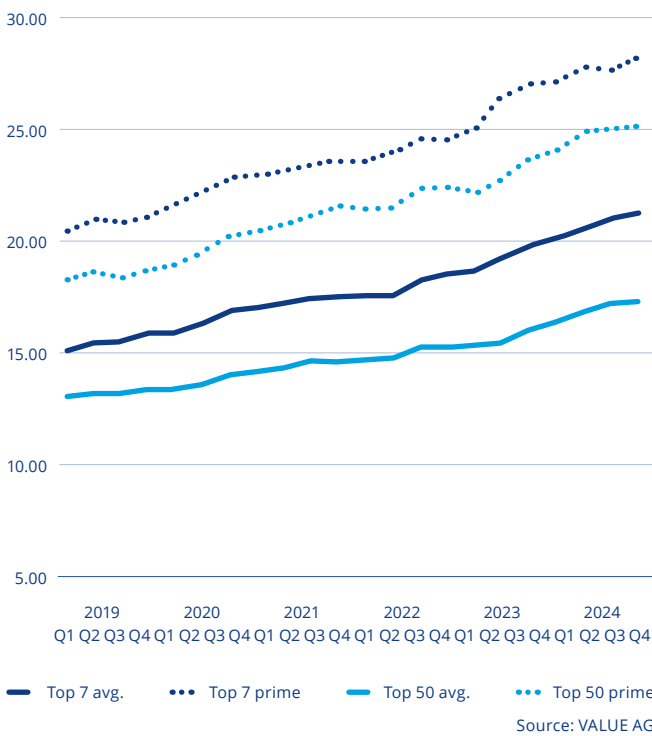


The supply of stock units for re-letting had decreased yoy in Germany's 50 largest cities as well as in the country's top 7 cities as at mid-2024. While supply in the country's 50 largest cities fell 10% in the past 12 months, Germany's top 7 cities saw a decrease of 7%. Rental momentum was very positive in all segments due to the significant drop in supply.

Rent prices for new leases in the Germany's top 7 cities have risen an average of around 7% to €16.10 per sqm and 8% to €11.05 per sqm in the country's 50 largest cities in the past 12 months. Prime rents rose even more sharply than average rents in the same period, up 10% in the country's top 7 cities as well as the 50 largest cities for re-letting stock units. Prime rents in the top 7 cities for new leases signed for space in stock units came to €23.35 per sqm and to €17.15 per sqm in the country's 50 largest cities during summer 2024.

\* Asking rents for new leases, existing leases not included

## Rent prices\* for new-build units in €/sqm



In contrast to the stock segment, new-build supply has registered an increase in rental units in the past 12 months for the first time in a while. The number of rental units on offer was up 11 % yoy in the top 7 cities and 6% yoy in the 50 largest cities in mid-2024. This had a slightly dampening effect on rental growth, although all new-build rental unit segments recorded an increase in rent prices.

Rent prices for new leases in Germany's top 7 cities have risen an average of around 7% to €21.20 per sqm and 8% to €17.20 per sqm in the country's 50 largest cities in the past 12 months. Prime rents for new-builds rose even more sharply than average rents in the same period, up 4% in the top 7 cities and 6% in the 50 largest cities. Prime rents in the top 7 cities for new leases signed for space in new-build units came to €28.10 per sqm and to €25.05 per sqm in the country's 50 largest cities during summer 2024.

\* Asking rents for new leases, existing leases not included



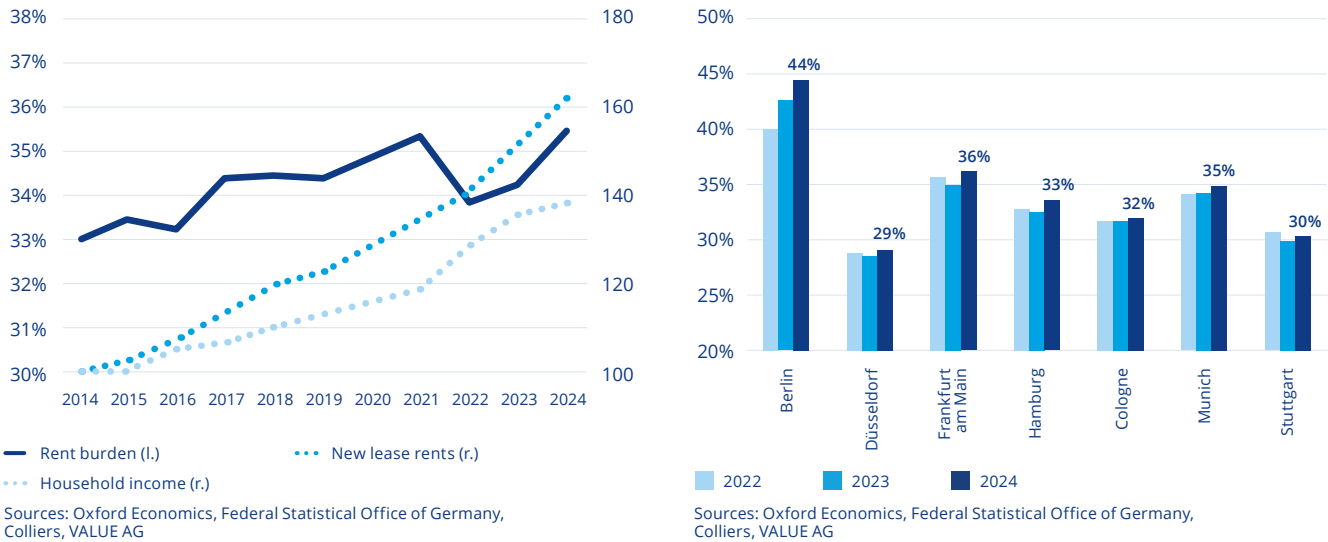
Housing remains affordable overall despite rent increases

# Rent burden increases slightly

When looking at the absolute rental price level, it must be taken into account that, in addition to rents, household incomes have also risen significantly in some cases in recent years. Although renting has generally become more expensive and the rent burden (rent as a percentage of

household income) has increased, the overall situation is still tolerable for the majority of tenants. The absolute rent burden of around 35% is also still within an acceptable range, even in the country's top 7 cities, although there are significant differences between them.

## Rent burden\* in Germany's top 7 cities (in %, 2014 = 100)



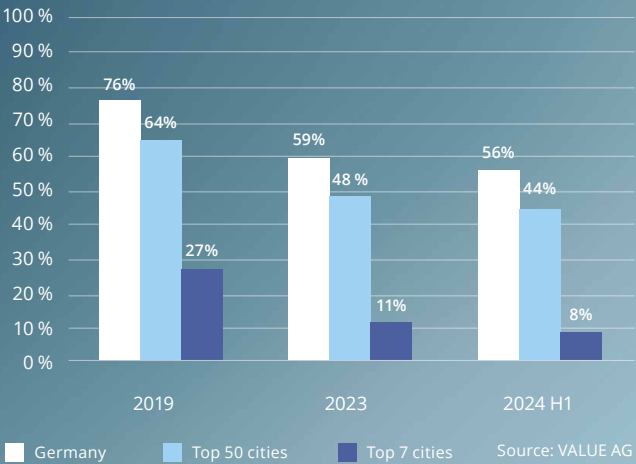
Income growth was unable to fully offset the increase in rent prices seen in recent years in Germany's top 7 cities. It did, however, manage to significantly limited the impact. While rents in the country's top 7 cities have risen about 4.9% on average over the past 10 years, household incomes have risen by about 3.3% annually. Within the top 7 cities, rent burden currently ranges from around 29%

in Düsseldorf to 36% in Frankfurt. Berlin stands out at 44%, as rents there have risen at an above-average rate. Although the situation has worsened considerably for some low-income households and the rent burden is higher in these cases, average rent prices remain generally affordable.

\* Based on a 95-sqm apartment under new lease at the local comparable rent calculated as monthly share of household income in %

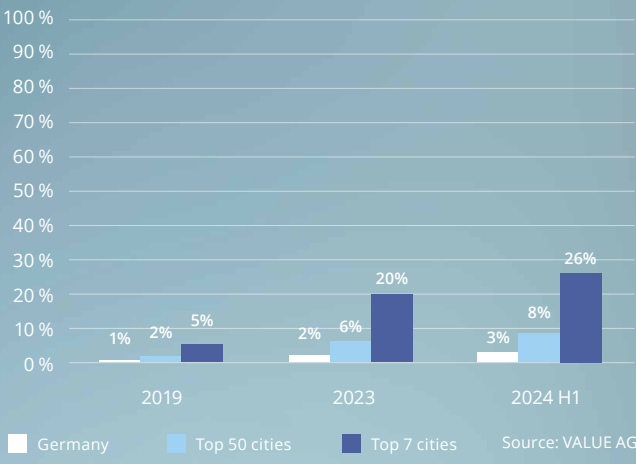
## Rental offers

< €10 per sqm (share of total supply in %)



## Rental offers

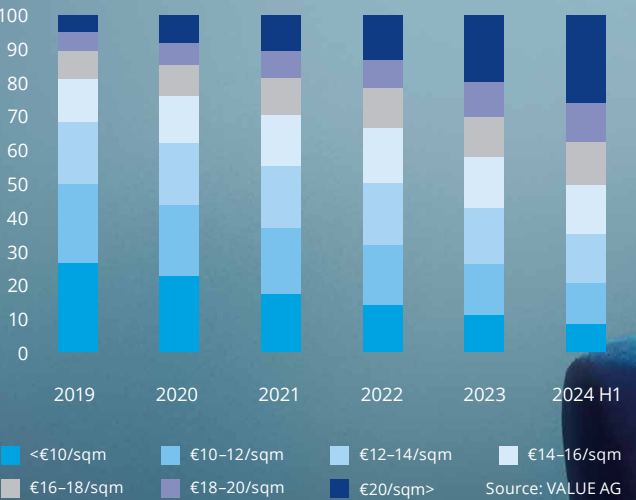
> €20 per sqm (share of total supply in %)



The availability of "affordable" housing in Germany has gradually decreased in recent years and the trend of rising prices continued through mid-2024. In terms of supply of rental units in Germany's top 7 cities, around one-third of all units on offer in mid-2024 were listed at below €14 per sqm. This was true for almost half the units on offer a year and a half ago.

The affordable price segment (below €10 per sqm) only accounts for just under 8% in the top 7 cities while the supply of expensive apartments has increased considerably. As such, almost one in four apartments in Germany's top 7 cities was listed at over €20 per sqm by mid 2024. When looking at the country's 50 largest cities, rental units in the very expensive segment of over €20 per sqm accounted for around 8%, while the affordable segment of up to €10 per sqm accounted for 44%. Strong polarization is therefore particularly evident in the country's top 7 cities. Although an increase in rent prices can be clearly seen across the board, it is nowhere near as strong as in the top 7 cities.

## Rental offers by price segment in top 7 cities (in %)



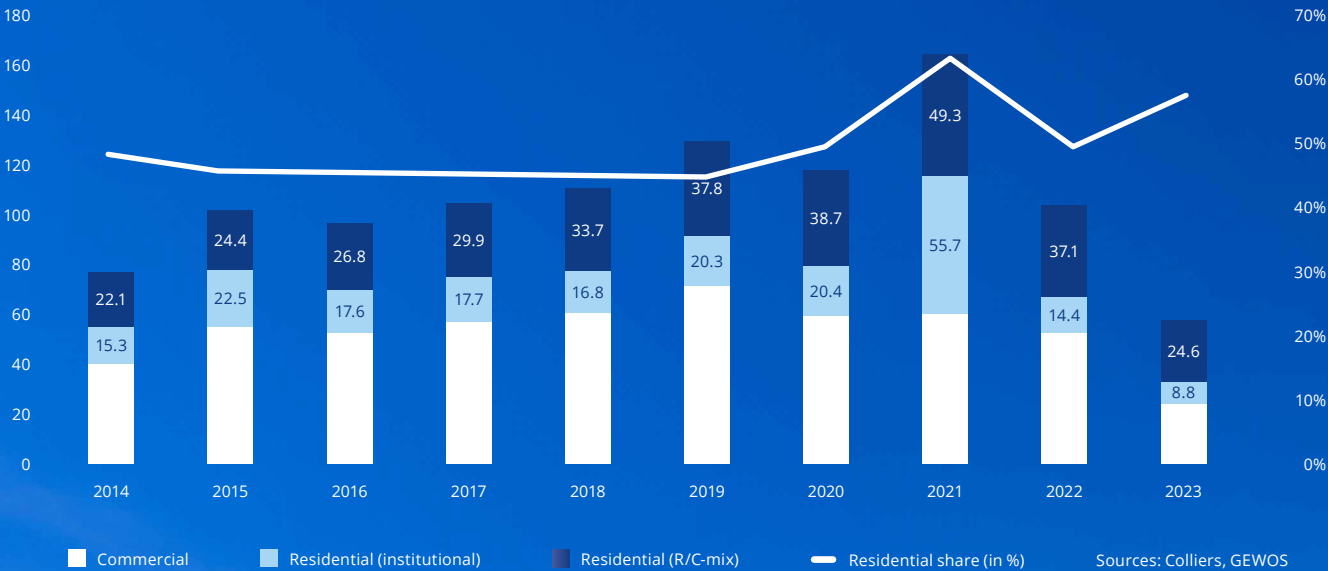


The price correction phase is over

# Focus remains on residential

## Transaction volume

in €bn



Annual transaction volume on the German commercial residential market comes to roughly €53bn based on the long-term average. This means that Germany's residential segment is just as large as the country's entire commercial real estate sector. The 2023 figures have not changed this, even though institutional residential

investment volume was down 38% yoy at €8.8bn. The residential and commercial mix property sector, which tends to be dominated by semi-institutional and private investors, experienced a somewhat weaker decline of 34%. Residential transaction volume, including all sub-segments, amounted to €33.4bn in 2023.

## Gross initial yields on stock properties

in %



Gross initial yields for stock properties have already risen to 3.85% (prime yield) in Germany's top 7 cities since 2023 as part of the market correction. Yields were generally stable in mid-2024 with momentum still low but slightly improved compared to the previous year due to ongoing transaction activity. Other locations outside the top 7 cities posted prime yields of 4.5%. That puts prime yields in Germany's top 7 cities up 85 bps from their lowest reading and up 60 bps in other cities. Yields have remained almost unchanged for 4 quarters now as the new price level takes hold.

As prices become increasingly attractive to investors, we have been seeing a strong uptick in demand since the end of 2023 in the residential and commercial mix property segment, dominated by private and semi-institutional market players. Market activity has also picked up since the beginning of the year, as evidenced by the higher number of deals signed. Institutional investment continues to be sluggish with low deal activity. Despite the weak start to the year, we generally believe that sentiment has improved and we are seeing a slight increase in market activity, not least as can be seen in the first deals involving larger holdings and portfolios to change hands. The positive demographic outlook and the considerable upside potential in rent prices offer medium and long-term opportunities at a significantly lower price level and with initial improvements in the interest rate and financing environment. With momentum accelerating and the product pipeline filling up, the second half of 2024 is likely to see livelier activity, which should continue into 2025.

Repricing has now been completed on the market as a whole and the new price level that has been established is increasingly being accepted by market participants. We are beginning to see more attractive entry opportunities and we expect residential investment to remain a component of institutional portfolios going forward.

Investors will continue to focus on new, ESG-compliant portfolio assets as well as on larger portfolios. The first major transactions recorded in the new-build and forward-deal segments serve as indicators that demand is growing in this segment as well. Institutional capital with a focus on private equity and equity-heavy players such as family offices are expected to stimulate demand buy side over the course of the year, while we expect large portfolio owners, property developers and distressed sellers, in particular, to be more active sell side due to liquidity pressure, which will increase supply on the market.

Overall, we expect transaction activity to pick up in 2024/2025 both in the semi-institutional residential and commercial mix property segment and in the institutional investment segment, generally characterized by stable yield levels and improved product availability. Market momentum, however, will largely depend on further interest rate moves by the ECB, the selling and portfolio streamlining activities of large portfolio owners and on properties being listed due to insolvency.



# Uptick in borrowing activity

## Financing costs remain high

In response to the rise in interest rates, demand for residential financing collapsed for the first time in years in spring 2022. The following price correction on the housing market affected all segments across the board. Borrowing volumes almost halved within a very short period of time and remained at an all-time low until the end of 2023. We have again been seeing a slight upward trend in borrowing volumes since the start of the year thanks to a drop in the effective annual interest rate by about 40 bps at the end of the year. The rolling 6-month average for loans recently came to around 15%, up roughly €4.1bn from the end of the previous year.

Financing costs are nevertheless still almost three times as high as the all-time low. Although conditions around effective lending rates temporarily improved at a high level in early 2024 in anticipation of interest rate cuts, the first cut made by the ECB in June has not yet led to a sustained reduction in interest costs. Instead, the effective annual interest rates were raised again due to risk-hedging margin increases made by lenders, currently putting these at roughly 4% (as of June 2024).

In view of further expected interest rate cuts accompanied by an improved overall market situation, we can expect financing costs to continue to fall over the rest of the year and into 2025, which should provide a positive basis for increased lending activity.

### Housing loans granted to private households

in € bn p.m. and APR (Annual Percentage Rate) in %.





Residential/commercial mix properties

Price correction of 33%

Asking multiples and properties for sale

Asking multiples (2019 = 100) and total properties for sale



Category	Acquisitions			Volume in € million			Transaction volume per acquisition in € million		
	2022	2023	YOY in %	2022	2023	YOY in %	2022	2023	YOY in %
Top 7 cities	2,817	2,279	-19%	9,733	6,992	-28%	3.5	3.1	-11%
Remaining 45 cities	8,288	6,576	-21%	10,407	6,242	-40%	1.3	0.9	-24%
All 52 cities	11,105	8,855	-20%	20,141	13,235	-34%	1.8	1.5	-18%

Sources: Colliers, local real estate valuation boards

Asking prices for residential, commercial and multifamily properties (starting at 1,000 sqm) have corrected by around 24% in Germany's 50 largest cities since the peak of the current cycle. We saw a 7% drop in asking prices in the previous year, which shows that sellers are more willing to negotiate on prices and put up realistic listings on the market.

As there was another significant increase in the number of properties for sale last year, overall product supply has continued to improve markedly. This can be seen in increased deal activity, in particular, since early 2024, which indicates that owners are becoming more willing to sell again. The number of listings has almost doubled from its low and appears to have stabilized at a high level. Since asking prices do not reflect actual transactions, it is important to also take a look at the official figures

published by the German valuation committees. According to data from the valuation committees, there has been a correction in average purchase prices of 18% over the past year based on transactions concluded in the 52 cities covered in the market report. Thus, prices have fallen by 33% since the ECB started hiking interest rates and in the wake of the general market correction.

Our general expectation is that the price correction phase is now over. The new price levels open up attractive entry opportunities.



ESG outlook

# EPBD\* amendment 2024 – new sustainability requirements profile

## EPBD 2024 - Facts

Official Journal of the European Union

"Buildings account for 40% of the EU's final energy consumption and 36% of its energy-related greenhouse gas emissions, with 75% of the buildings in the EU still being energy inefficient. Natural gas plays the largest role in heating buildings and accounts for around 39% of energy consumption from heating in residential buildings. At 11%, oil is the second most important fossil fuel used for heating, while coal accounts for around 3%."

Source: Official Journal of the European Union, EN, L series, 08.05.2024: DIRECTIVE (EU) 2024/1275 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 April 2024 on the energy performance of buildings (revised) (text relevant for EEA); [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202401275](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401275), Retrieved 05.08.2024



### Renovation of housing stock

Obligations and threshold values

Gradual renovation of the housing stock with a focus on buildings with the poorest energy performance (at least a 55% reduction in primary energy consumption through the renovation of 43% of buildings with the poorest energy performance).

Threshold values for average primary energy consumption of the entire housing stock:

- Reduction of at least 16% by 2030 compared to 2020.
- Reduction of at least 20%-22% by 2035 compared to 2020.
- A nationwide value in Germany calculated by 2040 and every 5 years thereafter.

\* Energy Performance Building Directive

Source: [https://www.bbsr-geg.bund.de/GEGPortal/DE/ErgaenzendeRegelungen/EPBD/energieeffizienz\\_node.html;jsessionid=99D1E662876D54CE4C0A9C7DA47EEB7D.live21301](https://www.bbsr-geg.bund.de/GEGPortal/DE/ErgaenzendeRegelungen/EPBD/energieeffizienz_node.html;jsessionid=99D1E662876D54CE4C0A9C7DA47EEB7D.live21301) (retrieval: 05.08.2024)



### Renovation passport

Obligations and threshold values

The EU member states are required to introduce a renovation passport by 29 May 2026.

The passport will be used voluntarily by the owners of buildings or units, unless a member state decides to make its use mandatory.

The renovation passport can also be obtained/ issued together with the energy certificate (Energieausweis).

## Overall building energy efficiency

Directive (EU) 2024/1275 of the European Parliament and of the Council of 24 April 2024

The Energy Performance Building Directive (EPBD) forms the European regulatory basis for national regulations, including the German Building Energy Act (Gebäudeenergiegesetz, GEG). The current version of the EPBD (2024/1275) was published on 8 May 2024 in the Official Journal of the European Union and has been in force since 28 May 2024. The EU member states must have the legal and administrative provisions of the EPBD integrated into national law by the end of May 2026. Article 15 of the EPBD (ban on the promotion of boilers powered exclusively by fossil fuels) must be implemented by 1 January 2025.

In addition to new requirements for stock buildings and new-builds, the EU member states are required to create new framework conditions for implementing the directives and measuring performance. The three focal points are:

- Specifying a national building renovation plan for gradual renovation of the building stock (target: zero emissions building stock by 2050).
- Setting up a national database for building energy performance.
- Creating a Europe-wide standardized, digital certificate for overall building energy efficiency (energy certificate/energy efficiency classes).







Zero emissions buildings

New standard for new-build construction

Introduction of the "zero emissions building" as a new-build standard by the end of 2029\*.

A zero emissions building is defined as follows:

- At least a 10% improvement in overall energy efficiency compared to the current nearly zero-energy building standard.
- No greenhouse gas emissions from fossil fuels at the site.
- Measuring and control systems for monitoring and controlling indoor air quality.
- Construction methods optimized for solar energy use.
- Network responsiveness: Ability to respond to external signals and adjust energy consumption, energy generation and storage (in new residential buildings as of 29 June 2026).
- Continuous monitoring of technical building system efficiency in new residential buildings as of 29 June 2026.



Life cycle assessment

Global warming potential

Calculating global warming potential during the life cycle and including this in the energy certificate for new-builds:

- As of 2028 applicable to all new-builds with a usable area > 1,000 sqm (art. 7),
- As of 2030 applicable to all new-builds plus introduction of targets for the global warming potential of new-builds (art. 7).

Definition according to art. 2 (24): "Life cycle greenhouse gas emissions" refers to the greenhouse gas emissions over the entire life cycle of a building, e.g. in the production and transportation of construction products, activities at the construction site, energy consumption in the building, replacement of construction products as well as demolition, transportation and management of waste materials and their reuse, recycling and final disposal.



Solar energy

Obligation to use (residential)

Gradual introduction of the obligation to use solar energy (art. 10):

- as of 2030 applicable to all new residential buildings and all new covered parking lots adjacent to buildings.



Sustainable mobility infrastructure

Equipment obligations\*\*

- New-builds with more than 3 parking spaces and residential buildings that are undergoing major renovation with more than 3 parking spaces must comply with the following: Pre-cabling installation for at least 50% of parking spaces (car) and line infrastructure for the remaining parking spaces (cars, bicycles and other class L vehicle types),
- Provision of at least 2 bicycle spaces for each residential unit.

New-builds with more than 3 parking spaces must have at least 1 charging point installed.



Ban on subsidies

Fossil-fueled boilers

As of 1 January 2025, the ban on subsidies for boilers powered exclusively by fossil fuels will apply (art. 17).

German federal subsidy initiatives already no longer provide for such funding.



Building technology

Focus on housing

Enabling data exchange and interoperability as well as access to relevant data for owners, tenants and property managers on building energy efficiency (art. 22).

- Shorter energy inspection intervals of heating and AC systems (art. 23): At least every 5 years for systems with a rated output of more than 70 kW
- At least every 3 years for systems with a rated output of more than 290 kW

Source: [https://www.bbsr-geg.bund.de/GEGPortal/DE/ErgaenzendeRegelungen/EPBD/energieeffizienz\\_node.html?sessionId=99D1E662876D54CE4C0A9C7DA47EEB7D.live21301](https://www.bbsr-geg.bund.de/GEGPortal/DE/ErgaenzendeRegelungen/EPBD/energieeffizienz_node.html?sessionId=99D1E662876D54CE4C0A9C7DA47EEB7D.live21301) (retrieval: 05.08.2024); Official Journal

\* This will apply as of 2028 to publicly owned property.  
\*\* There are exceptions!



## Outlook

# German Residential Market

- Despite the correction of census population figures, pressure from demand remains high as supply continues to tighten noticeably and fuel upward rent price trends, particularly in urban areas. We expect this to continue for years to come. In view of current absolute rent levels, we expect the growth in rent prices to come in lower than in the past 2 years due to affordability factors.
- Construction costs remain high despite lower inflation, i.e. new-build property developments and refurbishments continue to be expensive. The significant decline in issued permits is expected to result in a slump in new residential construction with numbers expected to drop by up to 40% in the years following 2024.
- Due to the general rise in service charges and high rent burden in some cities, demand for newer units with good energy efficiency will continue to rise. If the megatrends remain intact, rent prices can be expected to continue to rise across all segments in the coming years. Special types of use have been experiencing increased popularity and demand in the current environment and will become increasingly important to both tenants and investors going forward.
- Prices have undergone a significant correction. A new price level has been established that is increasingly being accepted by all market players and is fueling market activity.
- Following a significant price correction in the previous year, prices again fell an average of 18%, particularly in the first half of 2023. Prices and yields stabilized around the second half of the year and should remain largely robust in 2024/2025.
- As distressed sales from insolvencies increase, sales efforts by large portfolio holders and listed real estate companies are likely to secure supply in the institutional segment.
- Residential investments will remain an important portfolio component in the coming years particularly for institutional investors, while market activity among semi-institutional and private investors already began picking up in early 2024. Current increased activity is also a positive sign for the institutional residential segment as semi-institutional and private investors with a focus on the residential and commercial mix property segment generally tend to act earlier than institutional investors.
- With general conditions improved, the lower price level is making the residential market again much more attractive and offers new opportunities. The fact that financing costs are expected to continue to fall is another positive indication.





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