



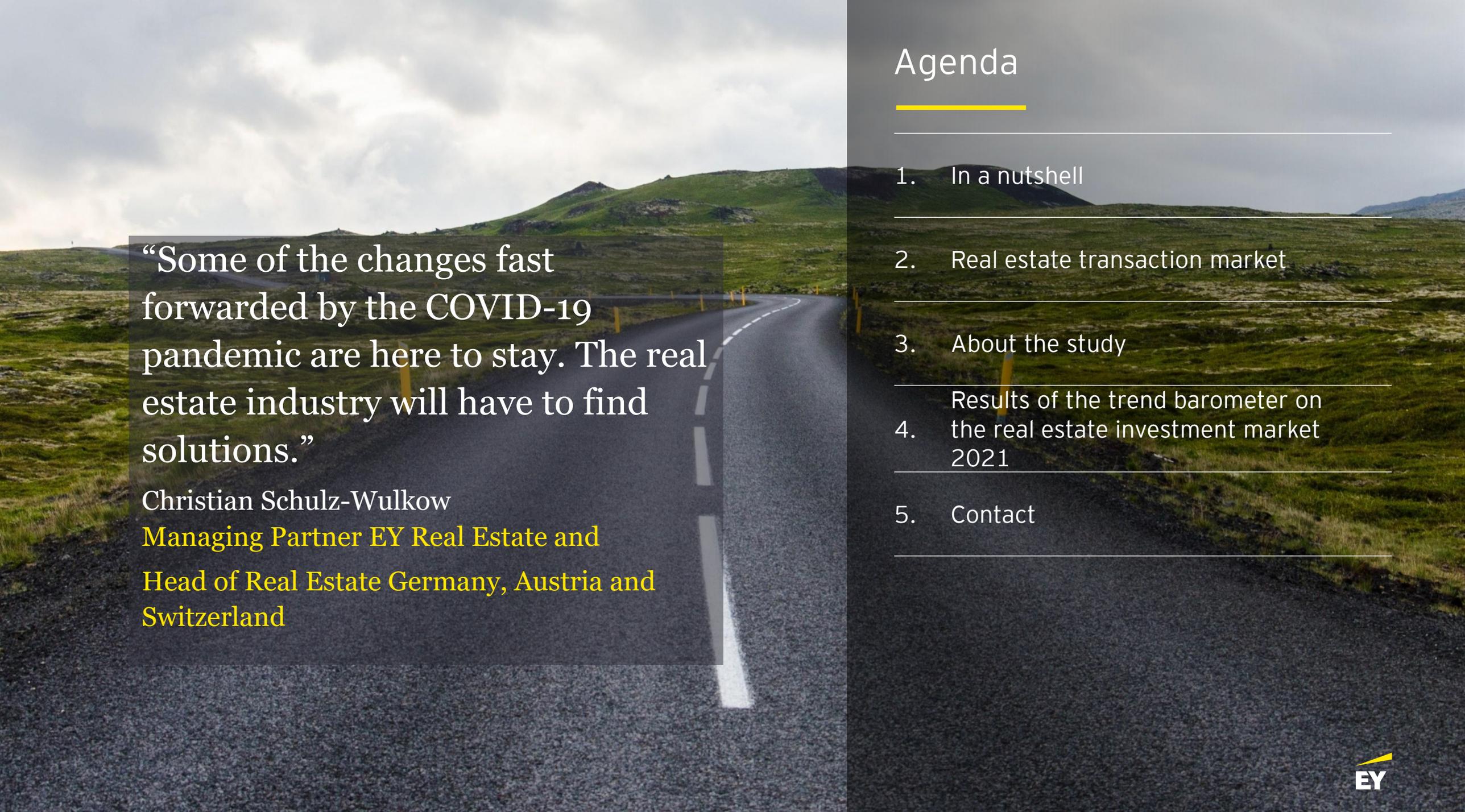
# Trend barometer on the real estate investment market 2021

Ernst & Young Real Estate GmbH  
January 2021



**EY**

Building a better  
working world



“Some of the changes fast forwarded by the COVID-19 pandemic are here to stay. The real estate industry will have to find solutions.”

Christian Schulz-Wulkow  
Managing Partner EY Real Estate and  
Head of Real Estate Germany, Austria and  
Switzerland

## Agenda

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# Editorial

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Dear readers,

When we presented the 2020 trend barometer on the real estate investment market a year ago, we opened with the statement that the gathering storm clouds had largely dispersed and the German real estate market had weathered the myriad political and economic uncertainties unscathed. From today's perspective, this phase seems like the notorious calm before the storm that reached us in Germany in March last year and resurged at the beginning of 2021 after temporarily abating. Unsurprisingly, the 2021 trend barometer on the real estate investment market therefore strongly reflects the coronavirus pandemic.

Our 15<sup>th</sup> survey of market participants shows the following: In 2021, the real estate market is facing immense challenges. At the same time, complex developments are coming to a head, be it the end of the Brexit transitional period, the ongoing pandemic and its implications or the harbingers of a major election year. The EU Taxonomy Regulation applicable from 2022 onwards is already commanding attention. In this context, sustainability is becoming a hot topic. According to the survey participants, the megatrends with the greatest impact on the real estate market include digitalization, the demographic shift and climate change. These must be urgently addressed, equally for regulatory as well as economic and social reasons.

Despite all the challenges and an overall slump in transaction volume in 2020, the vast majority of the roughly 200 market participants surveyed regard the German real estate market as an attractive or very attractive prospect. Hopes are still high for catch-up effects or at least a high-level sideways trend in transaction volumes based on a large number of postponed deals. While the domestic real estate market far outstrips other European markets, the gap between different asset classes and business models is widening. Opportunistic investors are already on the prowl.

We would like to thank each and every company that took part in this survey, thereby allowing us to present yet another comprehensive and balanced market assessment.

We hope you enjoy reading this publication and look forward to engaging in some lively dialog. Please feel free to contact us!

**Christian Schulz-Wulkow**  
Partner, Head of Real Estate  
Germany, Austria and Switzerland

**Paul von Drygalski**  
Director



In a nutshell

# In a nutshell

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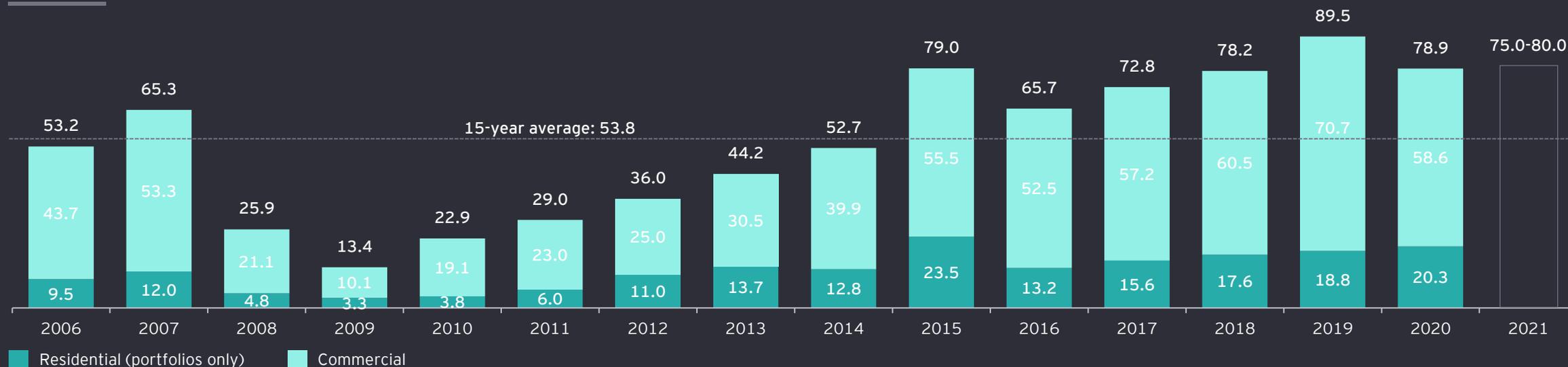
Transformation in the office market - shift from a place of work to a place to meet others

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are arranged in a way that they appear to converge towards the top of the frame. The sky is filled with soft, white clouds. A large, stylized yellow graphic element, resembling a thick, curved arrow or a stylized letter 'C', is overlaid on the left side of the image. The text 'Real estate transaction market' is written in white, sans-serif font across the middle of the image, partially overlapping the yellow graphic and the buildings.

Real estate  
transaction market

# Transaction volumes over the past 15 years ...

Transaction volumes (EUR b) in Germany\*



## 2019

- ▶ Real estate investment market records highest transaction volume of all time
- ▶ Number of transactions decreases
- ▶ Volume of transactions increases

## 2020

- ▶ Real estate as an investment product will remain a strong focus for investors
- ▶ Transaction volume set to remain at a historically high level

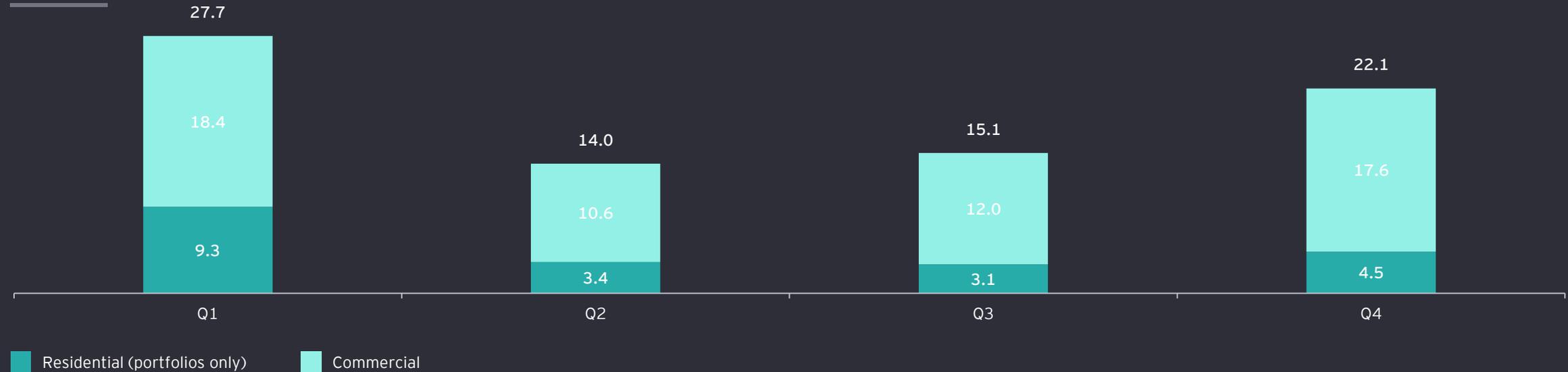
## Outlook for 2021

- ▶ Transaction volumes will reach a similar level in 2021
- ▶ Investors remain highly risk averse

\* Published transactions only (not including IPOs); source: EY research

# ... and in each quarter of 2020

Transaction volumes in 2020 (EUR b) in Germany\*



## Residential

- ▶ Highest first-quarter transaction volume since 2015
- ▶ Residential property prices continue to rise despite the COVID-19 pandemic

## Commercial

- ▶ The “coronavirus quarters” Q2 and Q3 report the lowest revenue since 2016
- ▶ Q3 saw the lowest number of transactions since Q3 2012
- ▶ Mounting pressure on yields for top logistics properties (“investors’ darlings”)

## Development

- ▶ Office properties remain the strongest asset category despite a sinking share in the total volume
- ▶ The transaction volume is high thanks to platform deals, especially in the first quarter
- ▶ Trade in undeveloped properties reported significant growth

\* Published transactions only (not including IPOs); source: EY research

# The largest German commercial real estate transactions\* ...

Quarter	Sellers	Buyers	Target	Units	Price
Q1	TLG Immobilien	Aroundtown	Acquisition of TLG Immobilien AG (78%)**	-	EUR 4,000m
Q2	Godewind	Covivio	Acquisition of Godewind (office)	-	EUR 1,100m
Q1	Metro	SCP/x-Bricks	Takeover of Real (retail)	80	EUR 900m
Q4	Aroundtown	P3 Logistic Parks/GIC	Metro cash & carry stores (retail)	33	EUR 800m
Q4	Samsung Group	Imfarr/SN Beteiligungen Holding	Silberturm (office), Frankfurt	1	EUR 630m
Q2	RFR Holding	Apollo Global Management	Kaufhof branches (retail)	17	EUR 600m
Q4	Commerz Real	Arminius Group	Grand-Campus (office), Frankfurt	1	n/a
Q4	Patrizia/IVG Garbe Logistik Fonds	AEW	Roots portfolio (logistics)	14	EUR 500m
Q2	TLG Immobilien	x-Bricks	Retail portfolio	120	EUR 490m
Q3	AEW	Tristan Capital Partners	City-Office-Germany special fund (office)	-	n/a

## Seller groups (overall market)

- ▶ Institutional investors and property developers/commercial developers were the most active seller groups in 2020

## Buyer groups (overall market)

- ▶ National investors on the buyer side account for the highest purchase volumes (just under 60%)
- ▶ Investors from Luxembourg were the most active non-German buyer group (just under 14%)

## Transaction size (top deals)

- ▶ Only two transactions with a volume greater than EUR 1,000 m
- ▶ Traded transaction volume lower than in the prior year
- ▶ Two single-asset transactions among the top deals

\*Published transactions only; source: EY research

# ... and residential real estate transactions\* in 2020

Quarter	Sellers	Buyers	Target	Residential units	Price
Q1	Adler Real Estate	ADO Properties	Merger with Adler Real Estate	58,000	EUR 6,000m
Q3	Private investors	Heimstaden	Residential portfolio (Berlin)	4,000	EUR 840m
Q2	Consus Real Estate	Gröner Group	Residential and commercial property development (Germany-wide)	-	EUR 690m
Q2	Deutsche Wohnen	LEG Immobilien	Residential portfolio (Germany-wide)	6,400	EUR 660m
Q2	Isaria Wohnbau	Deutsche Wohnen	Acquisition of the Isaria Wohnbau property development pipeline	2,700	EUR 600m
Q4	Invesco Asset Management Deutschland	Real I.S.	Prime-Four portfolio (Frankfurt, Dresden, Berlin, Cologne)	760	n/a
Q3	n/a	Peach Property Group	Residential portfolio (NRW, Neubrandenburg)	5,450	n/a
Q1	Consus Real Estate	ADO Properties	Holsten Quartier (Hamburg)	-	EUR 350m
Q3	Adler Real Estate/ADO Properties	Peach Property Group	Residential portfolio (NRW, Lower Saxony, Rhineland-Palatinate)	5,000	n/a
Q1	MEAG	Deutsche Asset One/Union Investment	Impremium portfolio (Munich)	715	EUR 300m

## Seller groups (overall market)

- ▶ Real estate AGs/REITs with the largest sales volumes in 2020

## Buyer groups (overall market)

- ▶ Real estate AGs/REITs rank among the most active buyer groups in 2020
- ▶ Foreign investors (51%) account for higher transaction volumes than German investors (49%)
- ▶ Private equity funds have the highest acquisition volume since 2012

## Transaction size (top deals)

- ▶ Five transactions in 2020 greater than EUR 500 m
- ▶ Adler acquisition responsible for a significantly higher transaction volume than in the prior year

\*Published transactions only; source: EY research



About the study

# About the study

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The findings of the study are based on our survey (October 2020) of some 200 investors active on the German real estate market in the recent past.



The survey addressed the following:

- ▶ General assessment of the German real estate investment market in 2021 by active market players
- ▶ Real estate investment strategy with regard to developing the real estate market

The companies surveyed cover a representative cross-section of the German real estate investment market, including:

- ▶ Banks
- ▶ Real estate funds
- ▶ Real estate corporations/REITs
- ▶ Institutional investors
- ▶ Project developers
- ▶ Investment companies
- ▶ Opportunity/private equity funds (PE)
- ▶ Private/family offices
- ▶ Housing companies

In addition to choosing from a list of answers, participants had the option to submit a comment for each question.



A person is paragliding over a vast field of wind turbines. The scene is captured at sunset or sunrise, with a warm, golden glow on the horizon. The sky is a mix of blue and orange. The wind turbines are silhouetted against the bright horizon. A large, semi-transparent yellow number '4' is overlaid on the left side of the image.

# 4

Results of the trend barometer on  
the real estate  
investment market 2021

# Assessment of the German transaction market by market players

2019



"We continue to believe that rents will rise in Germany and thus have faith in Germany as an investment market, albeit with a track record of low returns."

"In the future, focus will be placed on portfolio investments, as better returns are expected here than for acquisitions."

"Major skepticism about changes in legislation; greater tenant protection is putting a damper on investment activity."

2020



"Germany will remain interesting for real estate investments due to lack of alternatives for both private and institutional investors."

"Strong competition accompanied by decreasing returns will be an immense challenge for investors."

"The rental apartment segment will remain less attractive as long as the political and legal situation concerning federal and state policies on rent caps/rent price controls remains unclear."

2021



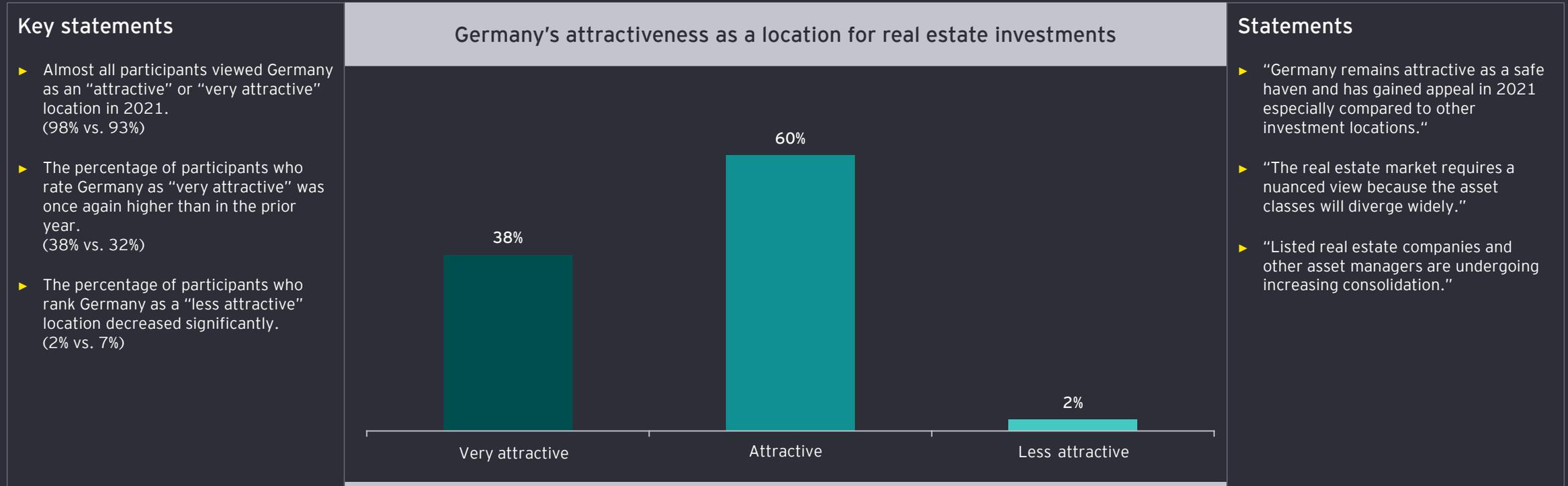
"The worldwide pandemic will result in a shift in target investment locations in 2021. Security will become an increasingly important factor."

"Germany will continue to fulfill its role as Europe's "safe haven" in 2021. Moreover, certain catch-up effects can be expected due to cautious investments in 2020."

"Demand for real estate with secure and long-term cash flows will increase."

# The German real estate investment market is proving resilient

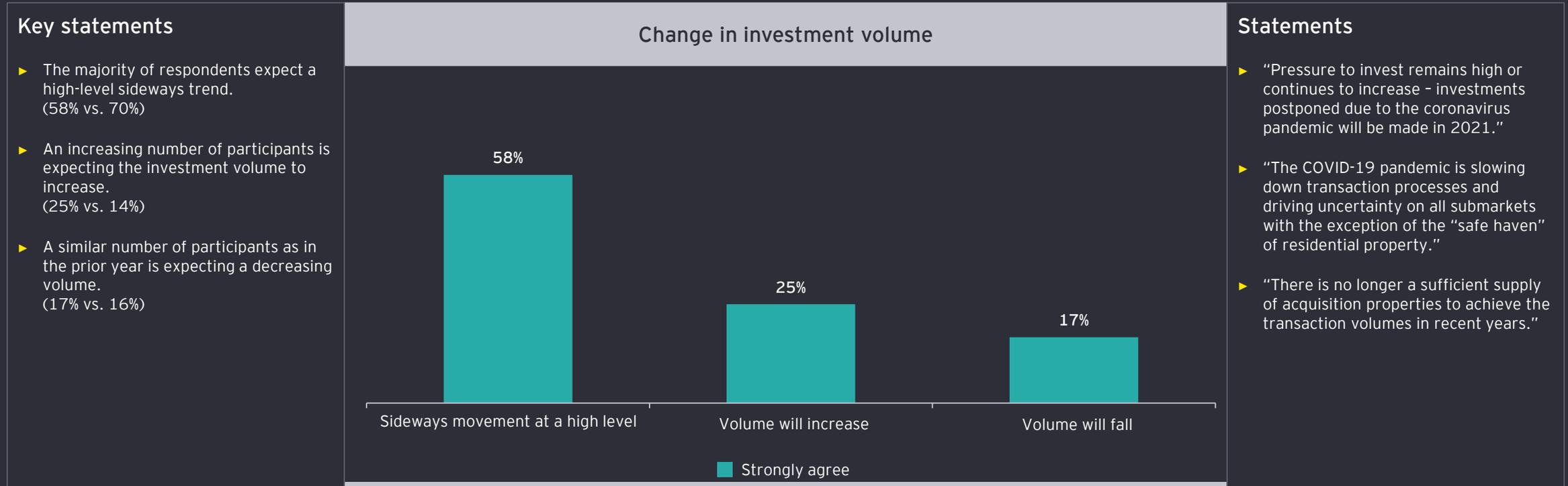
“How do you rate Germany’s attractiveness as a location for real estate investments in 2021?”



Comparison with the prior year (2021 vs. 2020)

# Investment volume: Catch-up effects are expected in 2021

“How will the investment volume develop in Germany in 2021?”



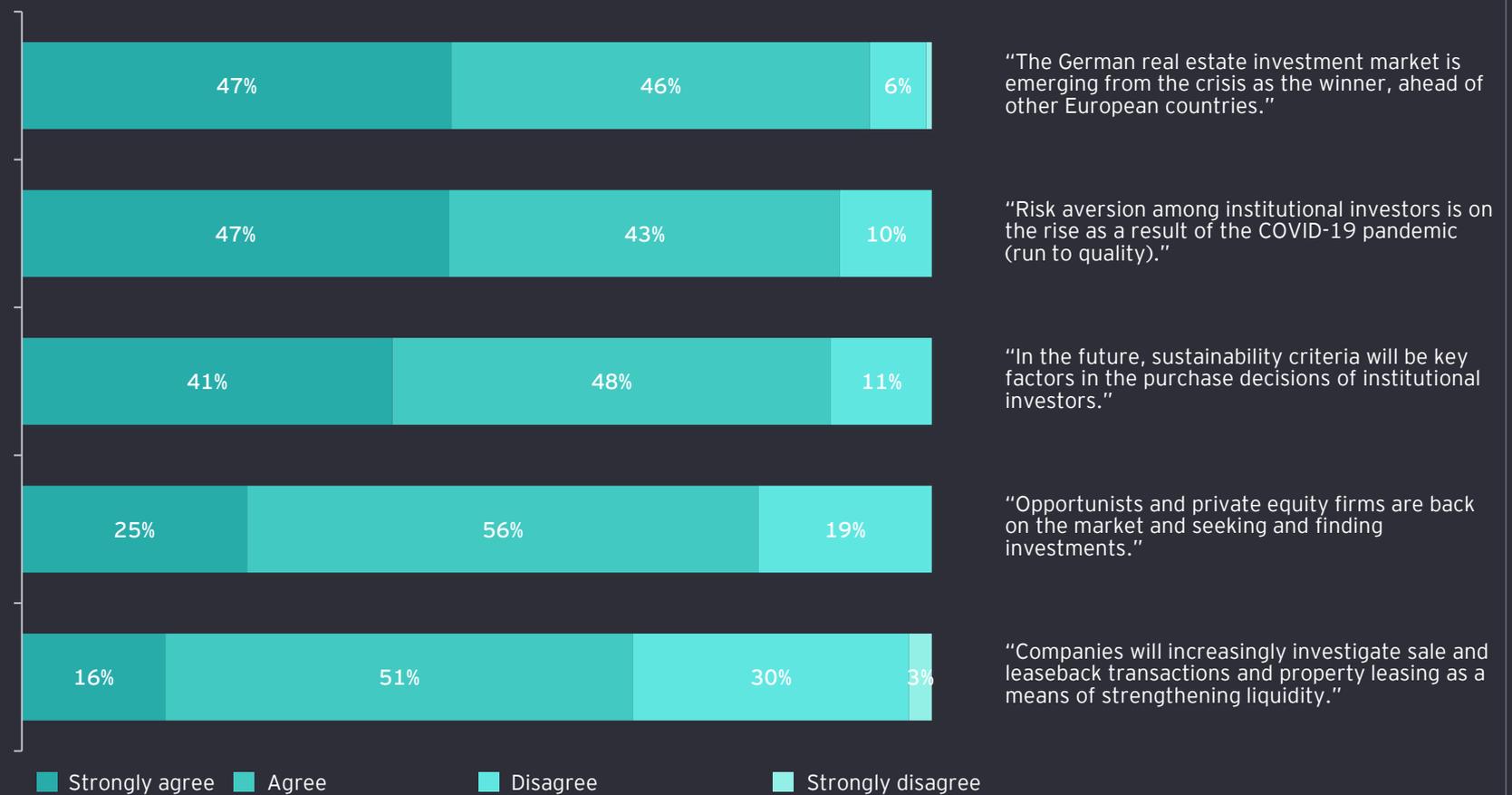
Comparison with the prior year (2021 vs. 2020)

# Opportunistic investors are on the prowl

“Which of the following statements about the real estate transaction market do you agree with for 2021?”

## Key statements

- ▶ The German real estate investment market is perceived as the winner in the crisis. (93%)
- ▶ The COVID-19 pandemic has curbed the risk appetite of institutional investors. (90%)
- ▶ In the future, institutional investors' purchase decisions will be strongly impacted by sustainability aspects. (89%)
- ▶ Opportunists and private equity firms are jockeying for position on the real estate market once more. (81%)
- ▶ Sale and leaseback transactions and property leasing are regarded as proven means of strengthening liquidity. (67%)

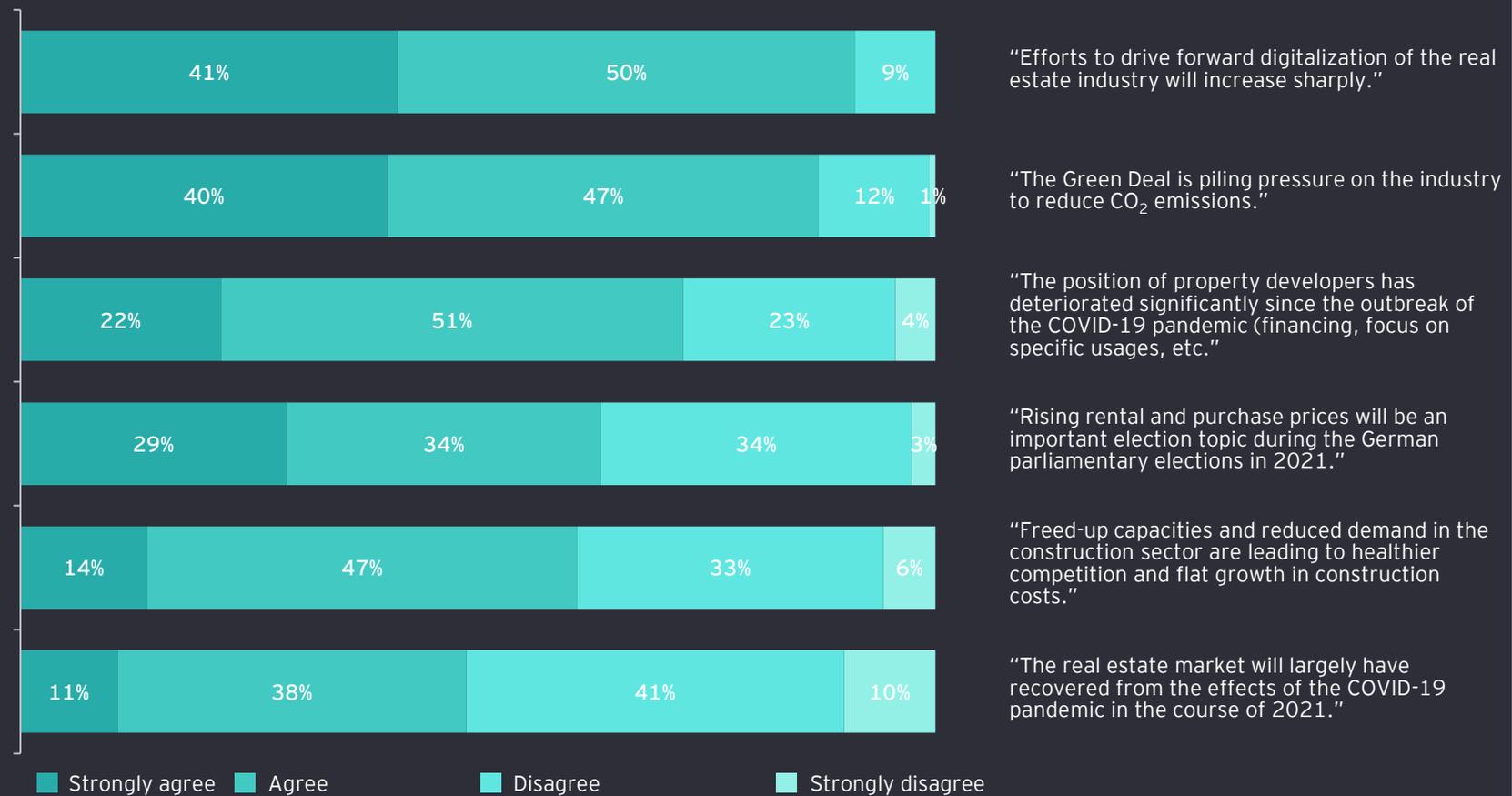


# Harder times for property developers

“Which of the following statements about the German real estate market do you agree with for 2021?”

## Key statements

- ▶ The industry is expecting efforts to drive forward digitalization to increase sharply. (91%)
- ▶ The Green Deal is honing the industry’s awareness of environmental factors. (87%)
- ▶ The position of property developers has deteriorated sharply since the outbreak of the COVID-19 pandemic. (73%)
- ▶ The majority of the participants surveyed consider the development of rental and purchase prices to be an important election topic. (63%)
- ▶ Given the freed-up capacities and reduced demand, construction prices are not forecast to rise further. (61%)
- ▶ Just over half of the respondents expect the market to recover from the effects of the COVID-19 pandemic only after 2021. (51%)

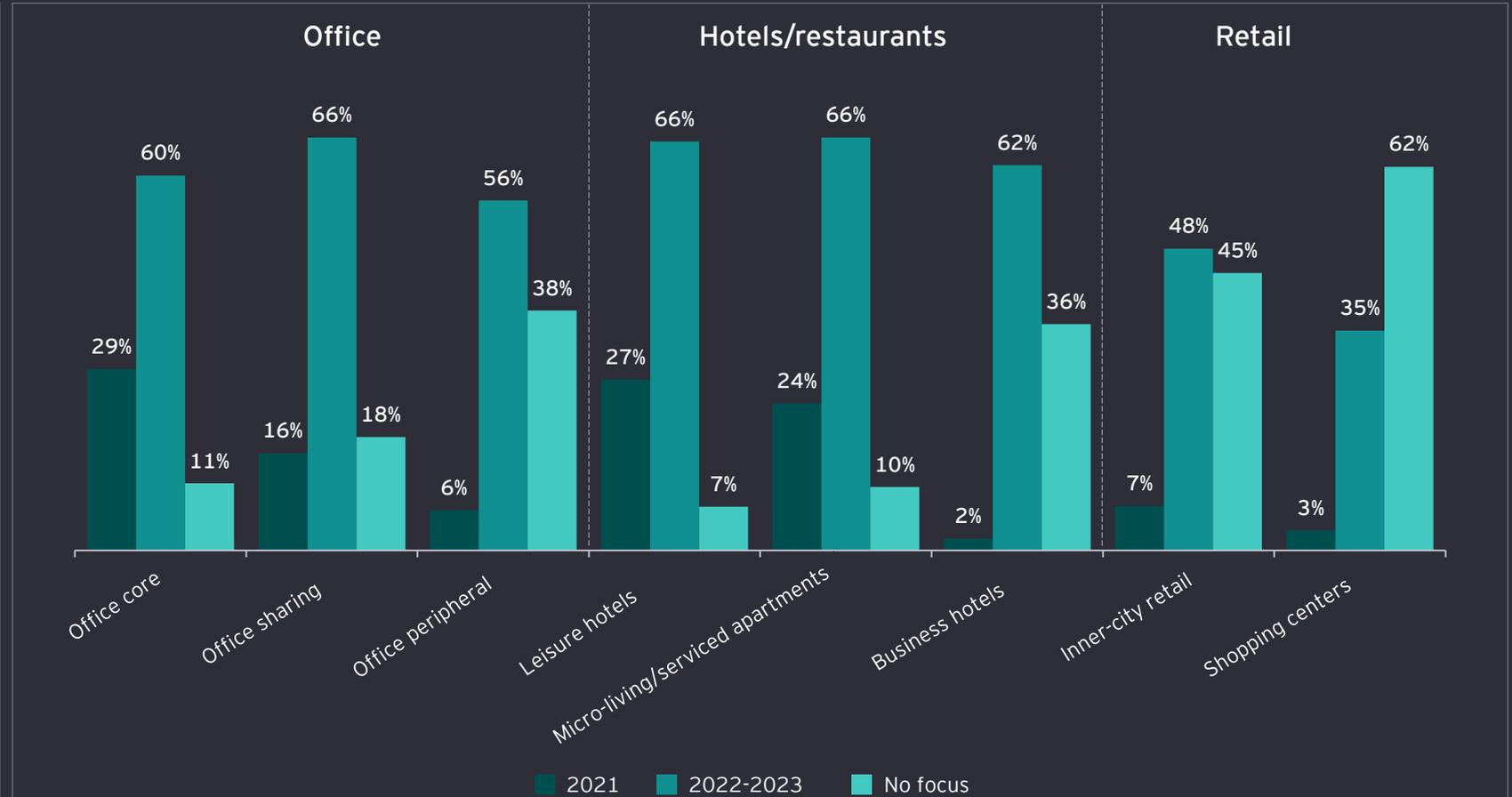


# Certain subsegments are unlikely to recover in the long term

“When will the following asset categories have fully recovered from the COVID-19 pandemic?”

## Key statements

- ▶ The survey participants expect to see a short to medium-term recovery in the office asset class.
  - ▶ The industry is particularly confident that the core locations will bounce back speedily.
  - ▶ By contrast, peripheral locations are viewed with pessimism.
- ▶ The respondents share the same view regarding the future viability of hotels/restaurants.
  - ▶ Business hotels are likely to be heavily impacted by the COVID-19 pandemic in the long term.
- ▶ The survey participants do not expect retail properties to recover in the short term.
  - ▶ This sentiment is especially pessimistic with regard to shopping centers.

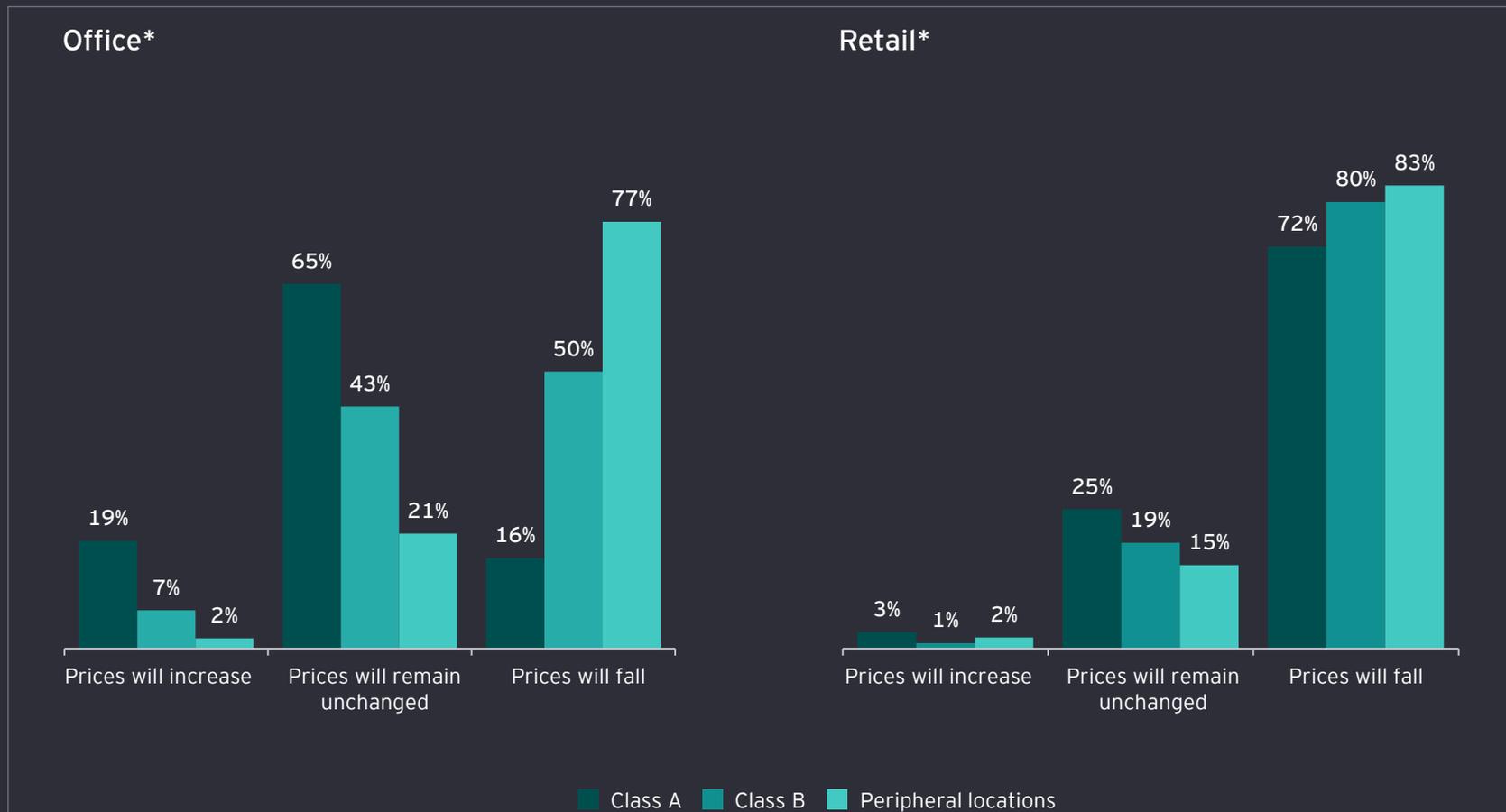


# Differentiated price estimates for offices - gloomy outlook in the retail segment

“How do you expect purchase prices to develop in Germany in 2021 based on type of use and location?”

## Key statements

- ▶ Prices for prime office locations are expected to remain flat on the whole. (65% vs. 41%)
- ▶ Only one in five still expect prices for offices in prime locations to increase. (19% vs. 57%)
- ▶ By contrast, lower prices are expected for office properties in peripheral locations. (77% vs. 25%)
- ▶ In the retail segment, the vast majority of participants expect falling prices in all locations. (Class A: 72% vs. 38%) (Class B: 80% vs. 58%) (Peripheral locations: 83% vs. 71%)



Comparison with the prior year (2021 vs. 2020)

\*Multiple answers possible

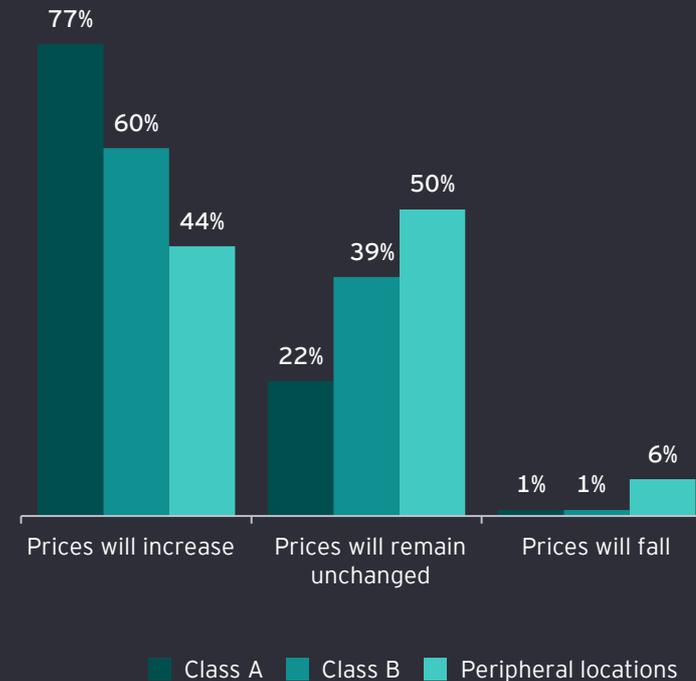
# Spiraling prices in the residential property market

“How do you expect purchase prices to develop in Germany in 2021 based on type of use and location?”

## Key statements

- ▶ The majority of survey participants expect prices of residential properties in class A and class B locations to rise.  
(Class A: 77% vs. 55%; class B: 60% vs. 60%)
- ▶ Even in peripheral locations prices are largely expected to remain stable.  
(Unchanged: 50% vs. 59%)
- ▶ A vast majority of survey participants therefore expect prices for residential properties to rise further.

## Residential\*



Comparison with the prior year (2021 vs. 2020)

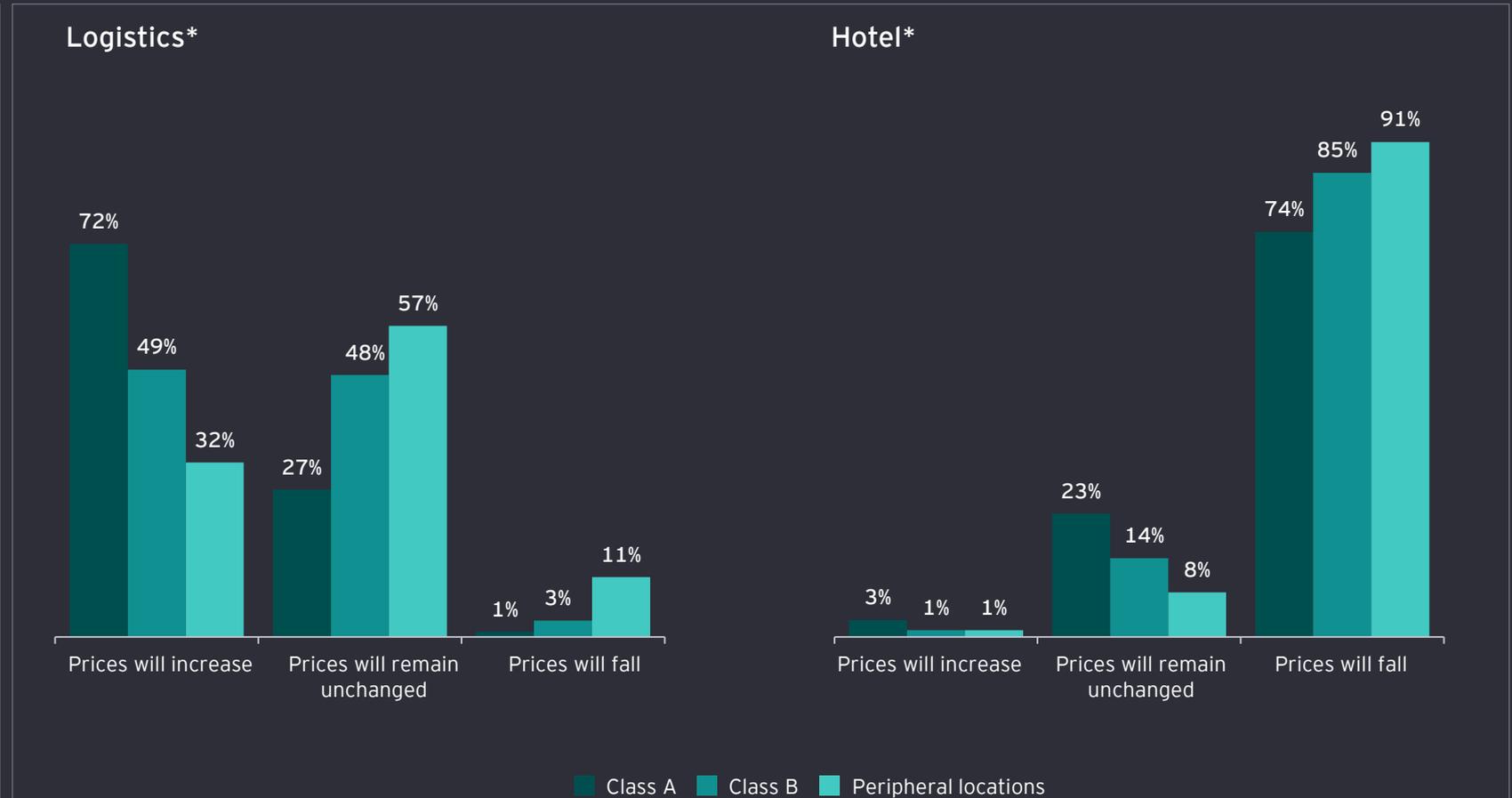
\*Multiple answers possible

# Diverging price expectations for logistics and hotel properties

“How do you expect purchase prices to develop in Germany in 2021 based on type of use and location?”

## Key statements

- ▶ Prices for logistics properties in prime locations are expected to increase further. (72% vs. 55%)
- ▶ Stable prices are anticipated for logistics properties in class B and peripheral locations. (Class B: 48% vs. 56%; peripheral locations: 57% vs. 59%)
- ▶ The vast majority of respondents expect prices for hotel properties in all locations to decrease in 2021. (Class A: 74% vs. 11%; class B: 85% vs. 18%; peripheral locations: 91% vs. 38%)



Comparison with the prior year (2021 vs. 2020)

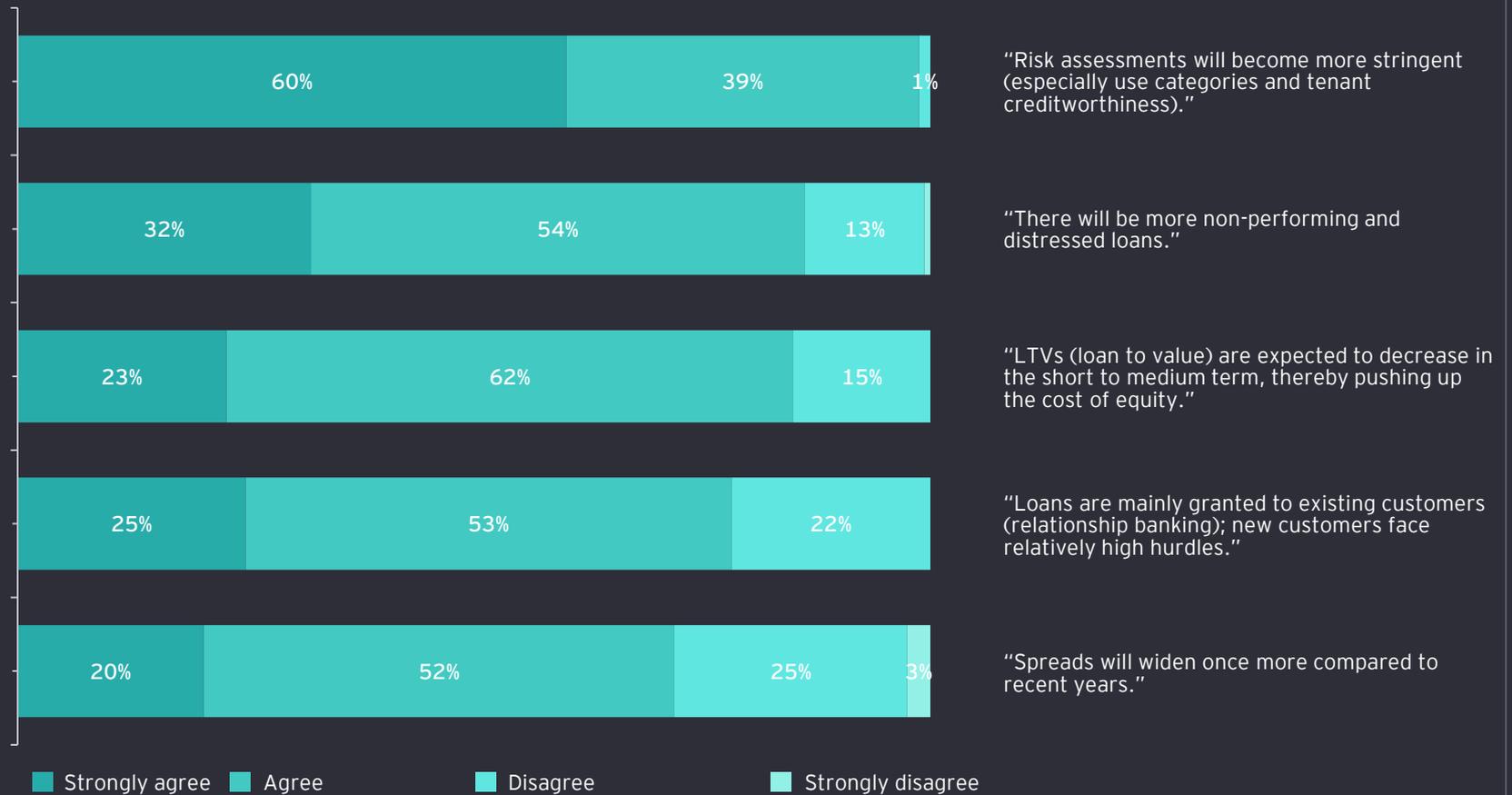
\*Multiple answers possible

# Tougher terms on the financing market for all participants

“Which of the following statements about the German real estate transaction market do you agree with for 2021?”

## Key statements

- ▶ Survey participants are also expecting more stringent risk assessments during loan origination in 2021. (99%)
- ▶ The number of non-performing and distressed loans will increase. (86%)
- ▶ The majority of respondents expect decreasing LTVs and higher costs of equity. (85%)
- ▶ In terms of lending, preference will be given to relationship banking over new customer business. (78%)
- ▶ The majority of survey participants are expecting wider spreads. (72%)

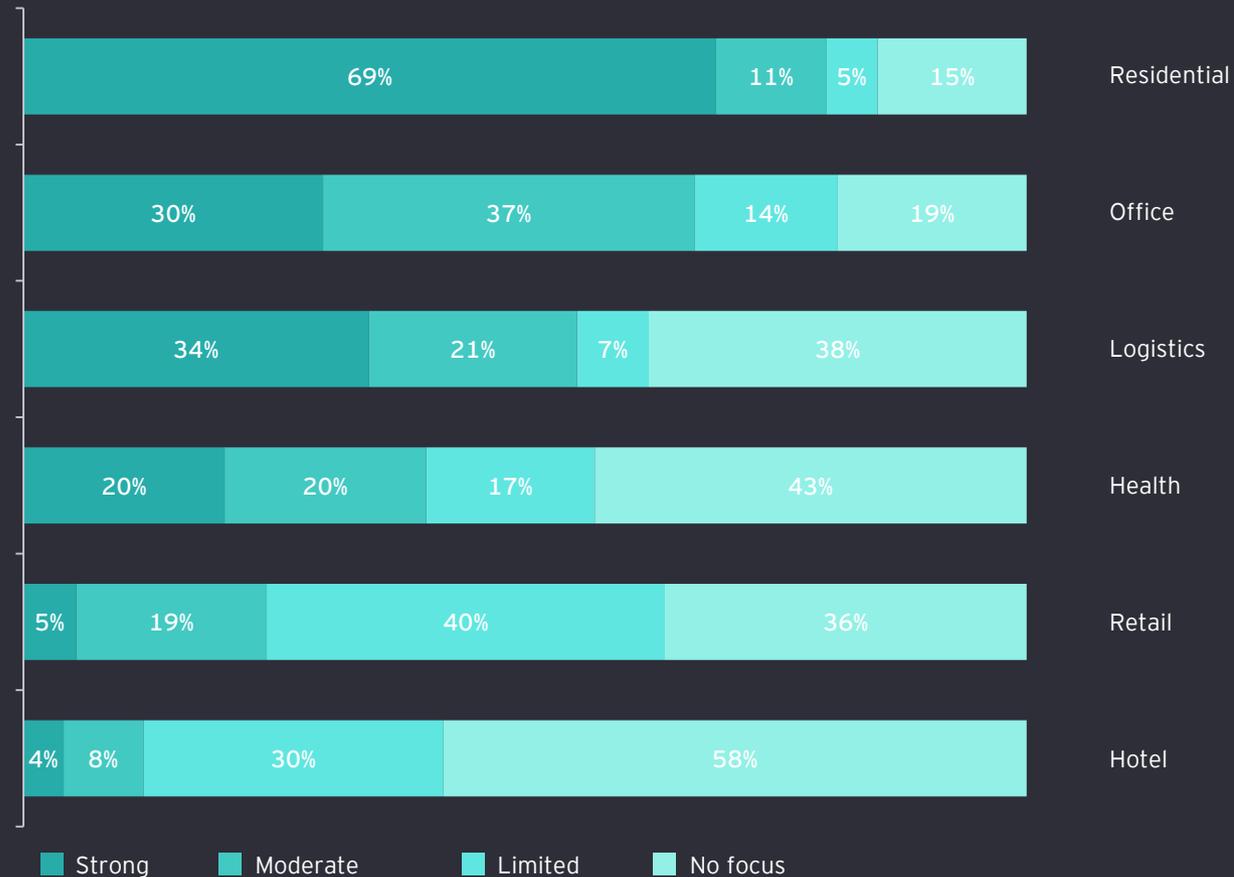


# Strong focus on residential investments - demand for office space remains high

“How strong is your focus on the following types of use for investments in 2021?”

## Key statements

- ▶ The majority of respondents favor the “residential” type of use. (strong/moderate: (80% vs. 71%)
- ▶ Confidence in office investments is waning somewhat. (strong/moderate: (67% vs. 77%)
- ▶ The logistics and health asset classes are more popular among investors than retail and hotels. (strong/moderate for logistics and health: 55% and 40%, respectively)
- ▶ Demand for hotel investments will be very limited in 2021. (limited/no focus: 88%)



Comparison with the prior year (2021 vs. 2020)

# Office: Berlin is back at the top

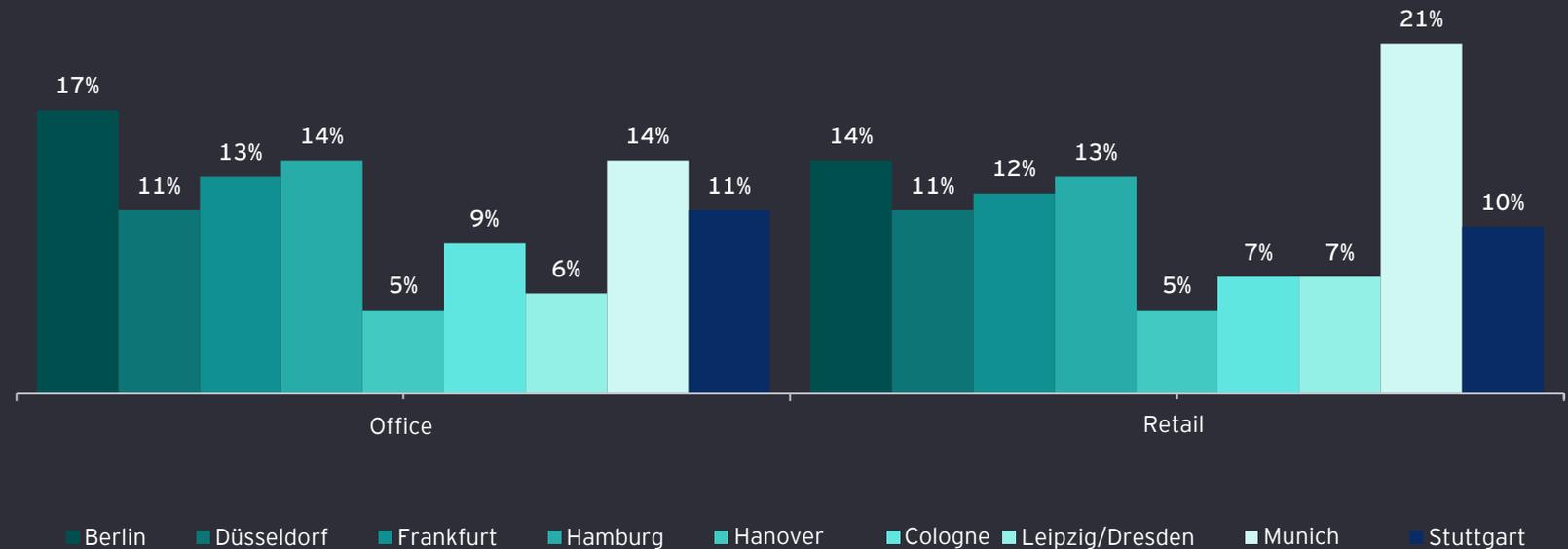
## Retail: Munich is still the undisputed market leader

“Which locations in Germany are you particularly focusing your investments on in 2021?”

### Key statements

- ▶ Investors favor office properties in Berlin. (17% vs. 14%)
- ▶ Demand for offices outside the top seven locations remains fairly weak. (Hanover: 5% vs. 5%; Leipzig/Dresden: (6% vs. 6%)
- ▶ Munich’s popularity in the retail segment is still on the rise (21% vs. 18%), with the city posting the highest demand in 2021.
- ▶ After Munich, Berlin (14%) and Hamburg (13%) are the most popular retail locations in Germany.

### Office and retail\*



Comparison with the prior year (2021 vs. 2020)

\*Multiple answers possible

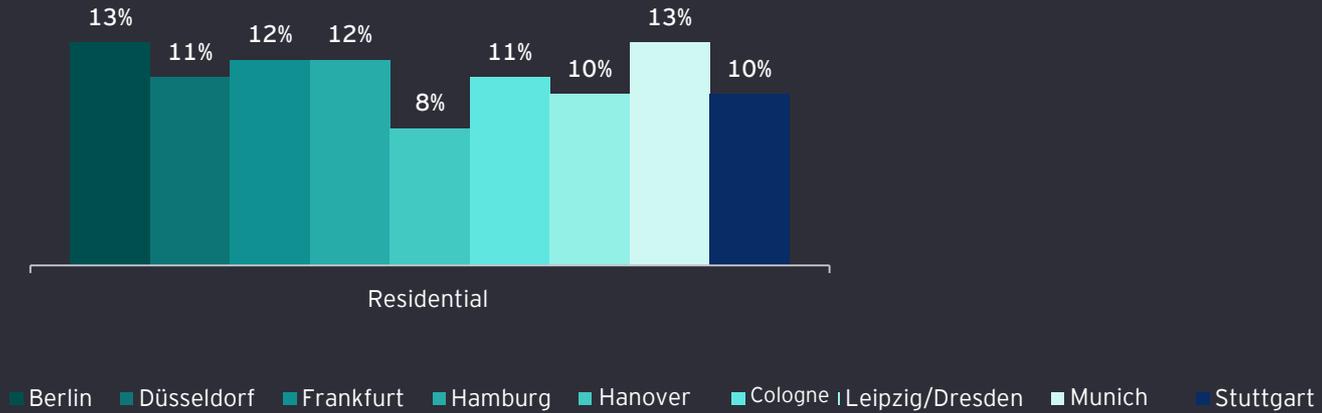
# Residential investments in conurbations remain popular

“Which locations in Germany are you particularly focusing your investments on in 2021?”

## Key statements

- ▶ For residential properties, Berlin (13% vs. 9%) and Munich (13% vs. 12%) are equally popular.
- ▶ Due to political influence, Berlin has lost the outstanding position it held in recent years.
- ▶ Demand for residential property in Frankfurt (12% vs. 12%) and Hamburg (12% vs. 13%) remains buoyant.

## Residential\*



Comparison with the prior year (2021 vs. 2020)

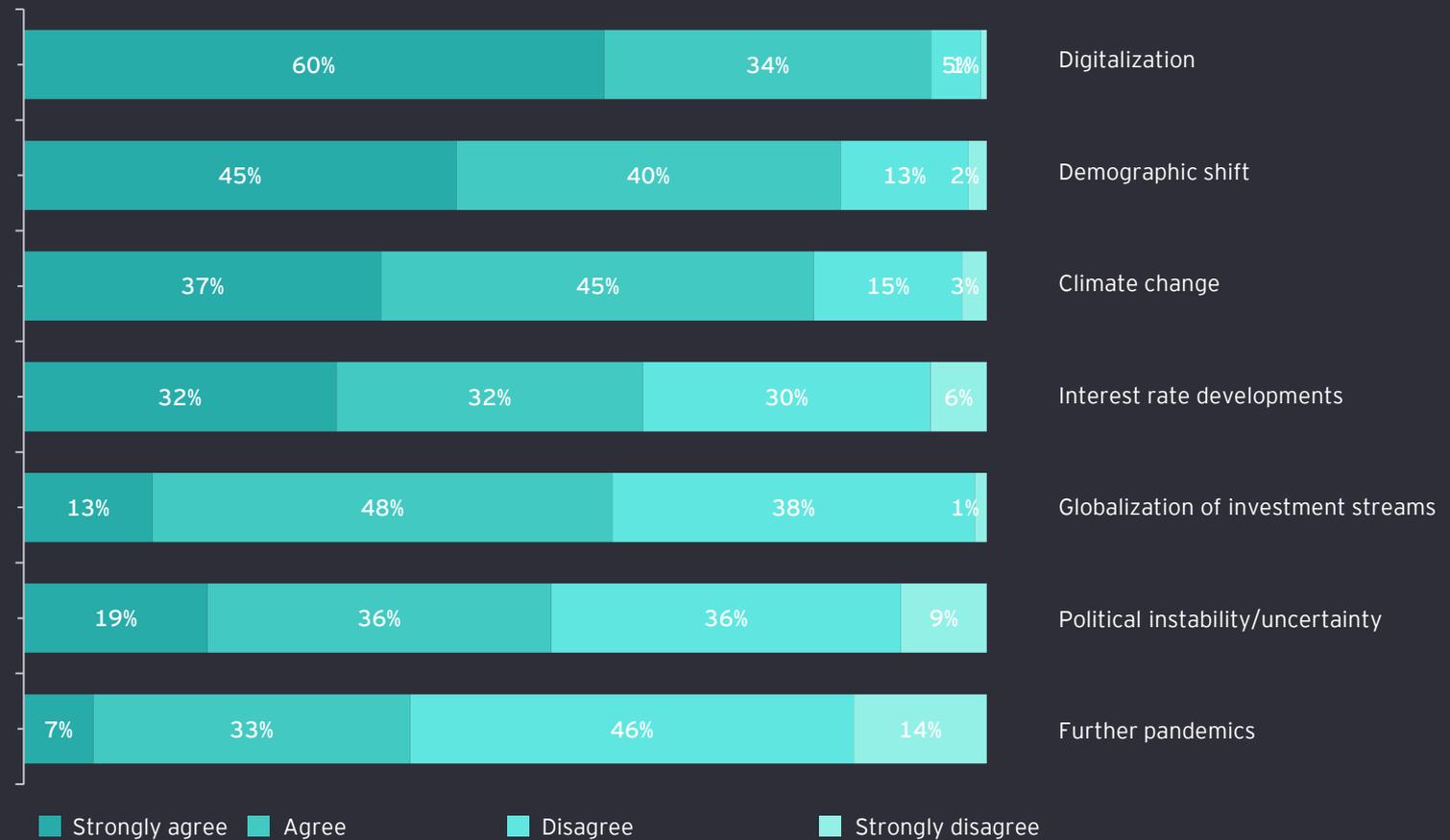
\*Multiple answers possible

# The industry recognizes the need to address digitalization and environmental issues

“Which megatrends will have the most influence on the German real estate market in the next 5 to 10 years?”

## Key statements

- ▶ Digitalization is the biggest megatrend and is on the rise. (94% vs. 89%)
- ▶ Despite its decreasing significance, demographic change is a major topic in the real estate sector. (85% vs. 91%)
- ▶ Climate change is fast becoming the key indicator in real estate. (82% vs. 72%)
- ▶ The significance of interest rate trends in the real estate industry is decreasing. (64% vs. 82%)
- ▶ Political instability and uncertainty is becoming far less relevant. (55% vs. 80%)
- ▶ Less than half of the respondents are concerned about further pandemics. (40%)



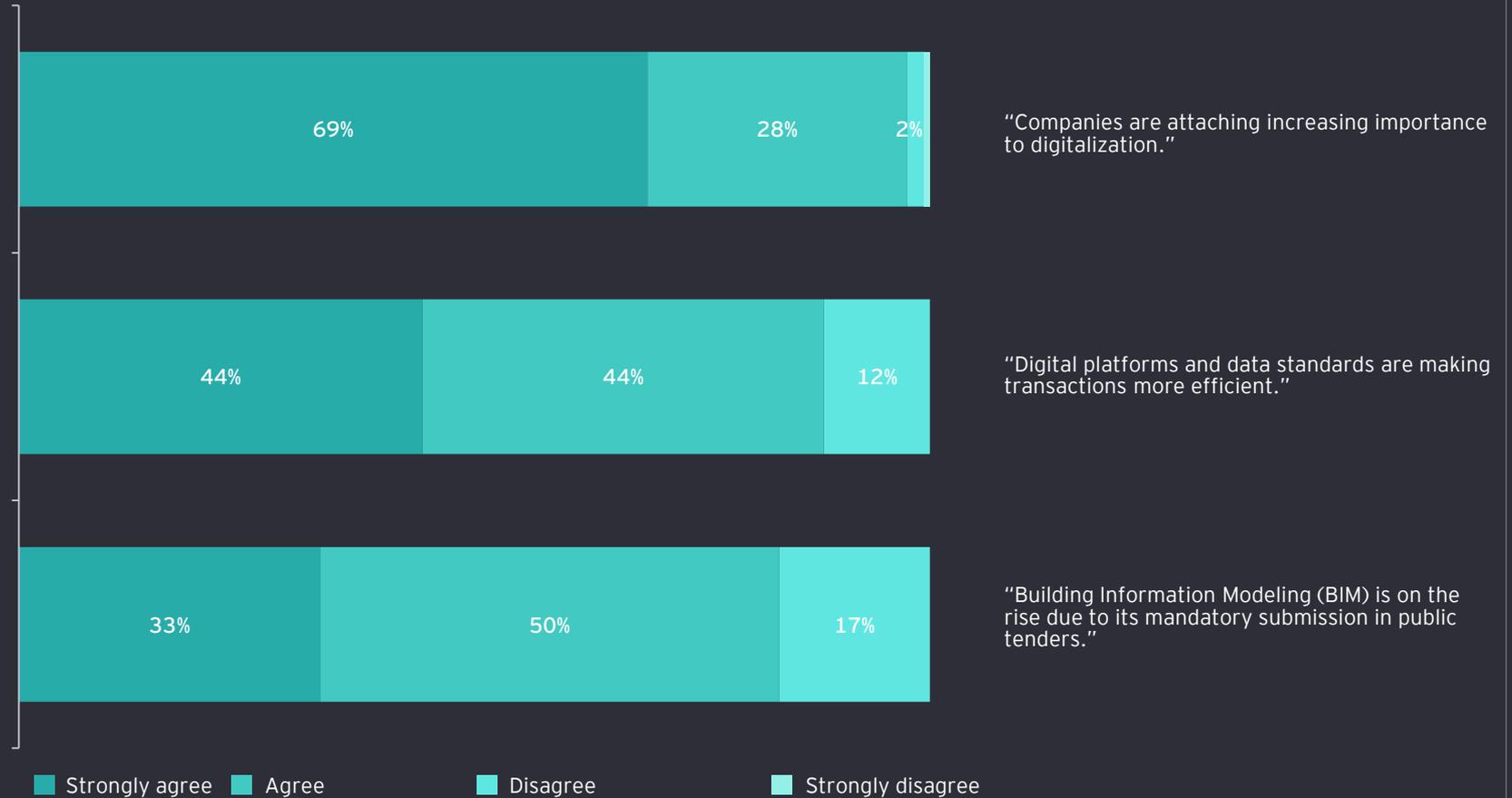
Comparison with the prior year (2021 vs. 2020)

# Still plenty of efficiency gains to be had from digitalization

“How do you assess the following digitalization trends?”

## Key statements

- ▶ The survey participants are attaching increasing importance to digitalization within their companies. (97%)
- ▶ The majority of respondents expect efficiency gains from transactions through digital platforms and data standards. (88%)
- ▶ BIM is benefiting from its mandatory submission in public tenders. (83%)

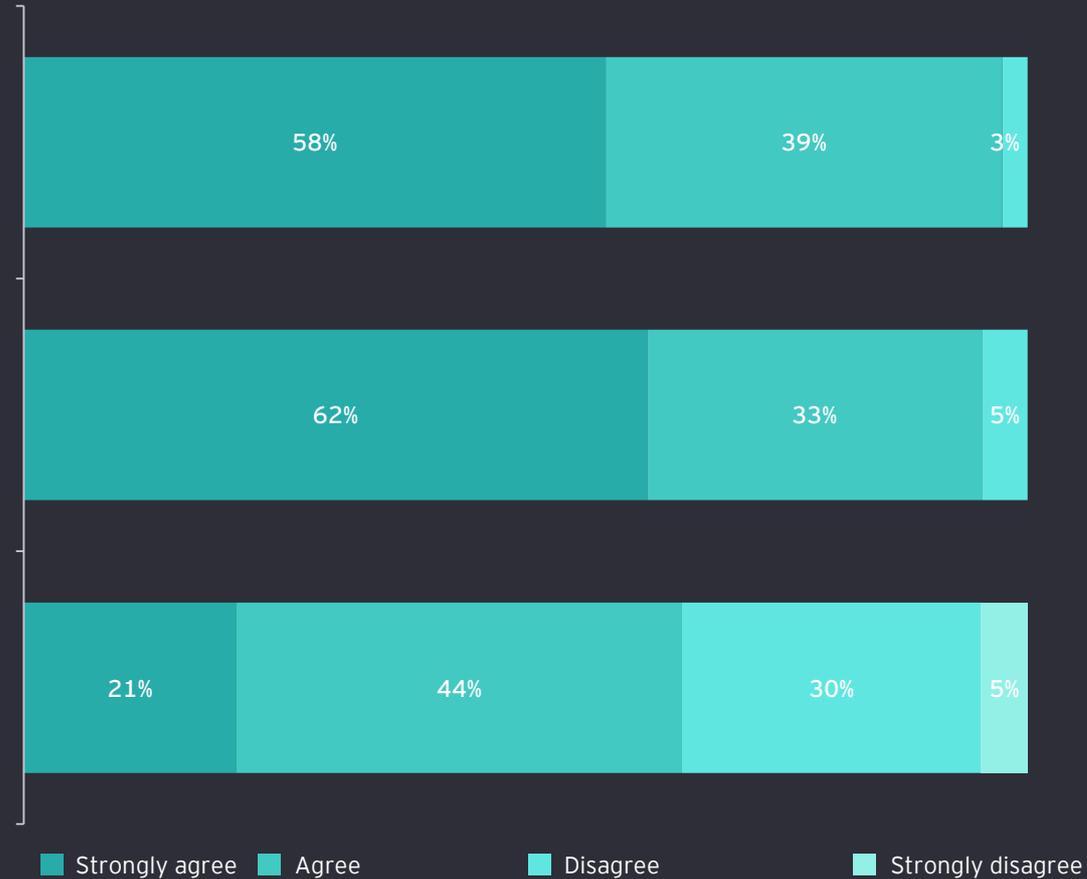


# ESG-compliant investments will pay off in the long term

“Rate the following statements about the inclusion of ESG (environmental, social, governance) criteria.”

## Key statements

- ▶ The real estate industry is still in its infancy in terms of the inclusion of ESG criteria. (97%)
- ▶ Consideration of ESG criteria is being facilitated by the EU taxonomy and is placing increasing pressure on the industry. (95%)
- ▶ An increase in profitability is to be expected in the medium to long term due to the implementation of ESG criteria. (65%)

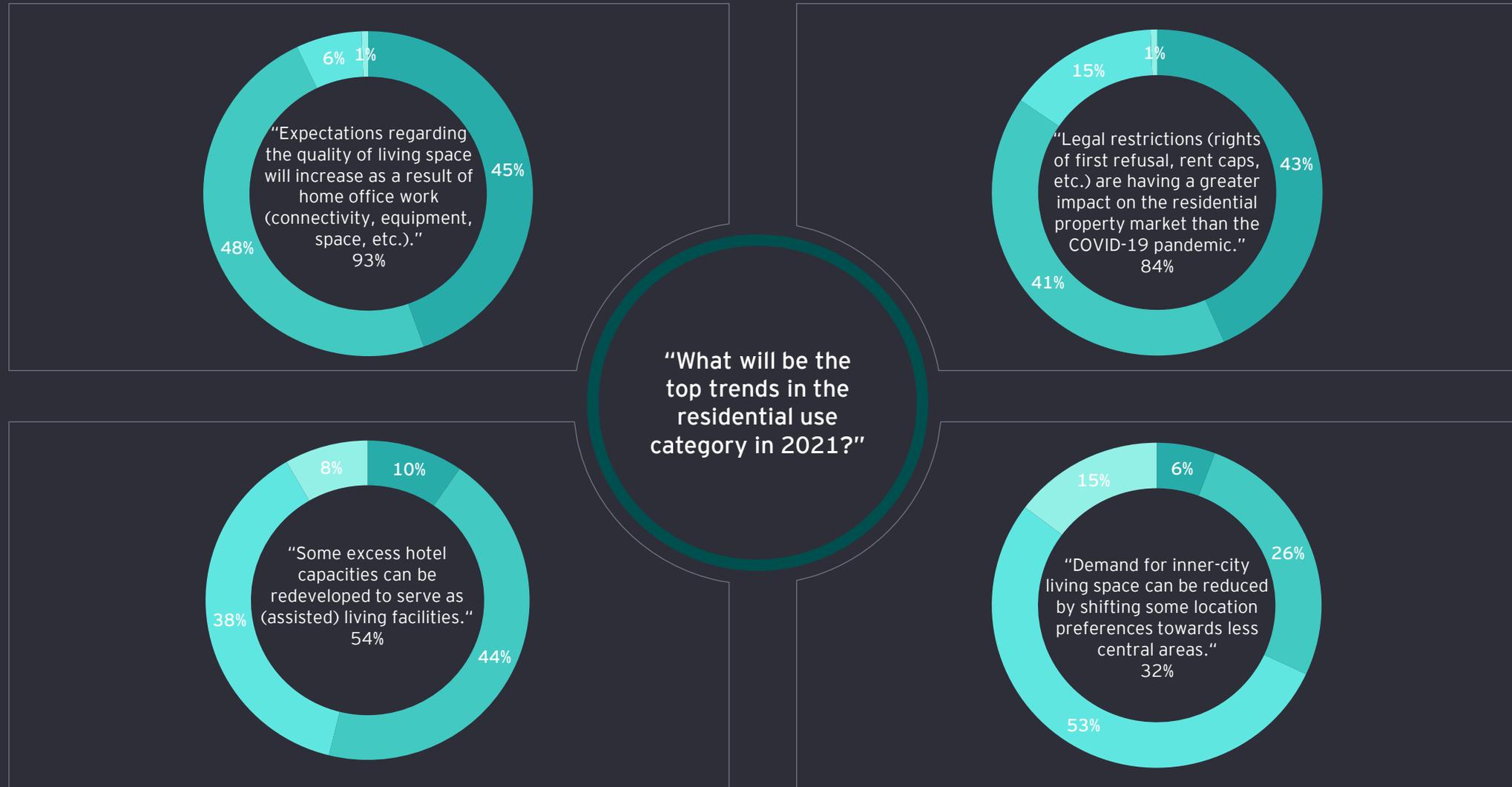


“The industry is still in its infancy in terms of operationalization of ESG criteria, especially with regard to automated collection of reportable data and organizational integration.”

“As a result of the EU taxonomy, there is increasing pressure from the capital market to implement the ESG criteria.”

“An increase in profitability is to be expected in the medium to long term due to the implementation of ESG criteria (short term: higher costs; long term: rising values and cheaper financing).”

# Working from home is fueling demand for living space



# Transformation in the office market - shift from a place of work to a place to meet others



■ Strongly agree  
 ■ Agree  
 ■ Disagree  
 ■ Strongly disagree

# Flexibility is required in retail to stop inner-city decay



# COVID-19 is leading to value adjustments and hotel market consolidation



■ Strongly agree  
 ■ Agree  
 ■ Disagree  
 ■ Strongly disagree

# Additional statements made by respondents

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"The lack of global alternatives both in the real estate asset class and in other asset classes are cementing Germany's image as a safe haven."

"Due to the lack of alternatives, the German real estate investment market remains an attractive location. However, there will probably be less demand in the office, hotel and retail segments (potentially also student apartments). In the residential segment, the attractiveness of an investment heavily depends on the political framework (rent price controls, regulatory requirements, energy standards, etc.)."

"Germany has performed significantly better than the rest of Europe in the coronavirus pandemic, emphasizing its status as an attractive and stable investment location."

"Due to the after-effects of COVID-19 on the real economy, the property market will continue to move sideways with a widening bid-ask spread and increasing demand for core products, cautious financing and slower builder permit procedures in the construction sector."

"Hotels and restaurants and bricks-and-mortar retail need completely new approaches and business models that allow them to respond flexibly to lockdown scenarios and/or travel restrictions."

"Banks will try to protect their bottom line and serve their existing customers. The financing sector also has to generate profits and will aim for additional margins."

"The investment market will see more selective investments and critical pricing with regard to economic situation in Germany and the related retail and consumer climate."

"There is no way around ESG. But the question is what will investors do if they only focus on yields? Can the European real estate transaction market remain competitive under these circumstances?"



Contact

# Your contacts for questions and feedback on the study

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