

A low-angle, upward-looking photograph of a classical building facade. The image shows the upper part of a large column on the right, with a series of statues (telamones) in niches along the entablature. The sky is a clear, pale blue. The text is overlaid on the left side of the image.

PERISKOP

Real Estate Market Report Germany – Q4 2024 and 2025 Outlook

Real Perspectives.

The property market in Germany remains challenging in the first quarter of 2025, while important adjustments and developments could take place in various sectors. The economic outlook remains subdued due to geopolitical uncertainties and structural challenges in the construction industry. Despite these challenging conditions, Germany remains an attractive destination for international property investors.

In this report we take a detailed look at current market developments, sentiment in the construction and residential property sectors and the outlook for the coming months.

Noticeable Economic Recovery Still Not in Sight

The German economy largely stagnated in the third quarter of 2024, as revised GDP figures show. While manufacturing, construction, and business services recorded declines, growth in public services and consumer-related sectors such as hospitality and retail supported the economy. This indicates reduced consumer restraint among households, driven by rising real wages. Nevertheless, negative sentiment indicators and geopolitical and domestic political uncertainties weigh on the prospects for a sustained recovery. The inflation rate slightly increased to 2.2% in November, matching the average for the previous 11 months of the year. At the same time, the labor market further weakened: employment numbers declined, unemployment rose, and short-time work increased significantly. Given the low demand for labor and job-cut plans in the manufacturing sector, labor market conditions are expected to remain subdued for the time being. Despite the economic situation and devaluations in the real estate sector, Germany remains one of the most popular destinations for real estate investors from Asia and North America, according to surveys by INREV and EY.

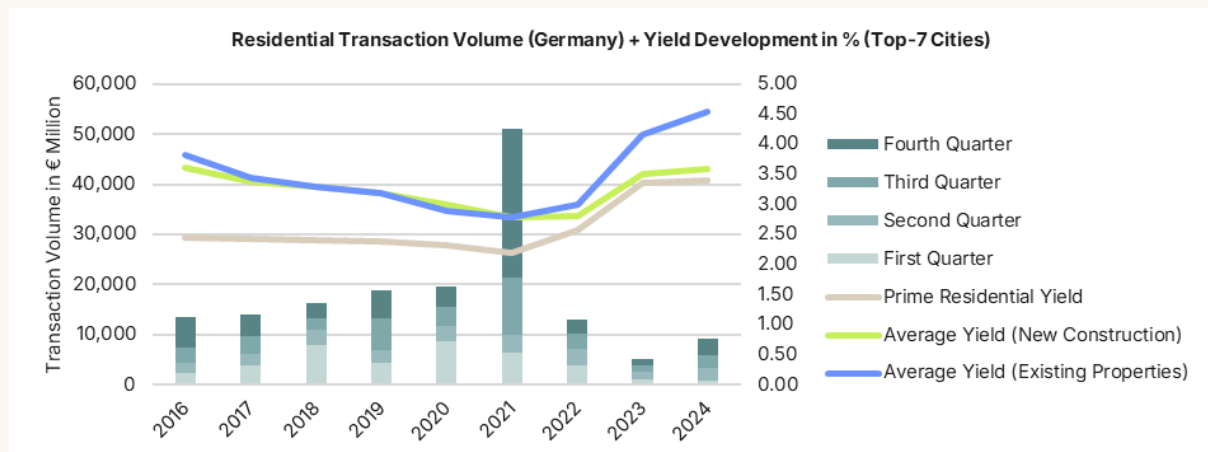
Construction Industry Approaching a Turning Point Despite Structural Challenges

The real construction volume is expected to decline for the fifth consecutive year in 2025, with a decrease of about one percent, following an early four percent drop in the previous year. However, growth of two percent is forecasted for 2026, signaling an impending turnaround. Despite this positive outlook, the effects of the past declines remain evident: new construction demand still significantly exceeds output. Aging infrastructure, insufficient insulation of older buildings, and an acute housing shortage in cities highlight the need for action. Policymakers are increasingly under pressure, especially to address the housing shortage. Measures such as increased declining-balanced depreciation for new housing construction, initiatives to cap construction costs, or accelerate permitting processes could improve the structural investment conditions in residential construction.

Significant Increase in the Residential Real Estate Transaction Market

Depending on the source, the transaction volume in the German residential real estate market ranges between €8.7 billion (CBRE) and €9.3 billion (BNP). This represents a significant increase compared to the previous year, with brokerage firms reporting

growth ranging from 14% (Savills) to 78% (BNP). The fourth quarter was particularly strong, with €3.9 billion in transactions, the highest figures since early 2022. Despite the recovery, the volume remained around 50% below the long-term average (source: BNP). Prime yields slightly increased by the end of 2024, with brokers indicating a range between 3.4% (CBRE) and 3.9% (C&W), while non-renovated properties in weaker locations achieved even higher yields.



Source: CBRE Research + BNP Paribas, as of 12/31/2024

Decline in Building Permits for Residential Construction Continues

The number of building permits in residential construction fell to 18,596 units in October 2024, marking the lowest level since 2012—a decrease of 18% compared to the previous year. The rental housing sector, which accounts for two-thirds of new construction, has been particularly affected, with a 22.2% drop from January to October. Given this trend, the housing shortage is expected to be a central topic in the upcoming federal election campaign. Experts are urging the next federal government to implement targeted programs for affordable housing, reduce bureaucratic barriers, and revise the Building Energy Act (Gebäudetyp-E-Gesetz), which currently creates more legal uncertainty than relief. Additionally, regulations should be harmonized, digitized, and costly requirements reduced to make residential construction more affordable and efficient.

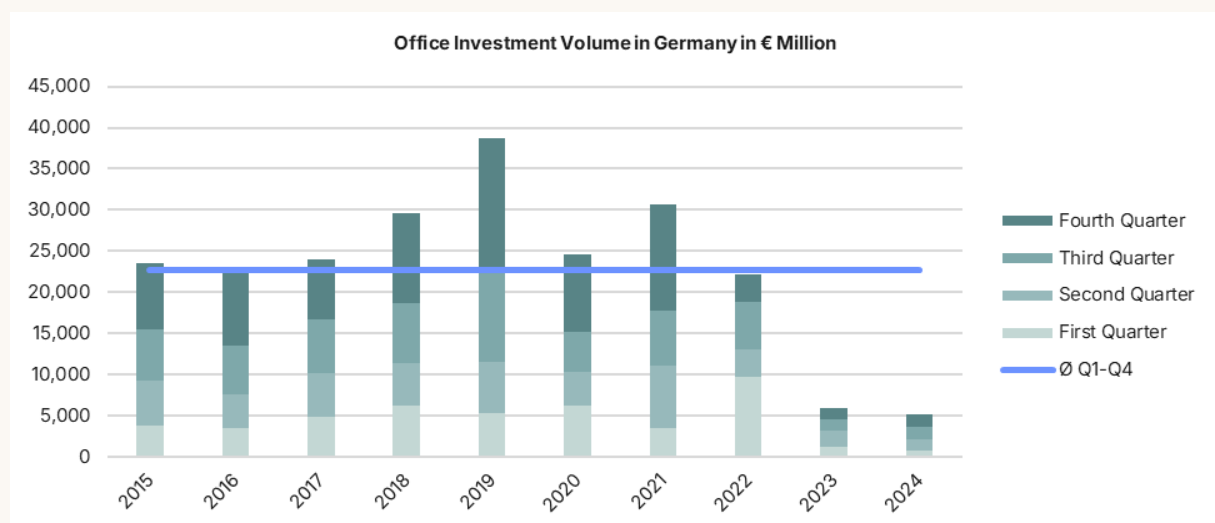
Moderate Easing of Construction Prices After Significant Increases

Following sharp increases in construction prices in 2021 (+8.1%) and 2022 (+15.4%) due to material price hikes caused by the Ukraine war, there has been a slight easing of prices for some construction materials since mid-2022. However, construction prices remain significantly above early 2021 levels. In 2023, construction prices rose by 6.9%, with a more moderate increase of 3.0% expected in 2024 and a further slowdown to 2.0% in 2025. In addition to material prices, rising labor costs in the construction industry also play a role. After real income losses for construction workers in 2022 and 2023 due to high inflation, a significant collective wage

adjustment was agreed upon in 2024. Effective May 1, 2024, monthly salary increases have led to wage growth of 6.7% in Western Germany and 13.2% in Eastern Germany. The price dynamics reflect the high price level and the stabilization of material costs without fully offsetting previous increases.

Office Real Estate Investment Market

In 2024, investments in office real estate in Germany totaled approximately €5.2 to €6.0 billion, depending on the source. While BNP reported a decline of 13%, CBRE and Savills observed a slight increase of 10%–11% compared to the previous year. Nevertheless, the share of office investments in the total commercial transaction volume, at just 16%–20%, marked a historic low. This development reflects ongoing challenges posed by the difficult economic environment, rising interest rates, and uncertainties surrounding the proportion of remote work. However, signs of stabilization are emerging: Prime yields for office properties remained constant in the fourth quarter, averaging 4.36% in Germany's top-tier cities (A-Städte). Additionally, the increasing trend of employees returning to offices points to a potential market recovery that could support future investment volumes.



Source: BNP Paribas, as of 12/31/2024

Significant Increase in the Attractiveness of New Construction Projects

Over the past decade, high demand has led to substantial rent increases in German metropolitan areas. Between Q3 2014 and Q3 2024, rents in some cities rose by as much as 100% (Berlin +99%, Leipzig +77%, Munich +67%). This trend is not limited to central locations but also extends to adjacent densely populated areas. In regulated housing stocks, however, rent increases are limited due to low tenant turnover and capped rental rates, which restrict the potential for growth. At the same time, rising maintenance and management costs are putting pressure on the profitability of these stocks. This has prompted institutional investors to increasingly focus on new

construction projects. Together with newer existing buildings (constructed from 2014 onwards), which are exempt from rental caps, the new construction segment accounted for 43% of transaction volumes—significantly higher than the five-year average of 24%.

Record-High Insolvencies in the Real Estate Sector

The number of large company insolvencies reached a five-year record high of 364 cases last year, a 31% increase compared to the previous year. The crisis is particularly evident in the real estate sector, with insolvencies of developers and builders remaining at peak levels. Simultaneously, liquidity problems in these areas are increasingly causing severe difficulties for shell construction firms and downstream trades, such as interior finishing or facility management. The number of insolvent shell construction companies rose by 50%, while bankruptcies in downstream trades increased by an alarming 185%. Furthermore, the years 2025 to 2027 are expected to see the highest refinancing volumes in Germany, potentially leading to an increase in NPLs (non-performing loans) and insolvencies. For 2025, a further increase in insolvencies by 20 to 25% is projected, with disproportionate growth expected in the real estate sector as well as in the automotive and mechanical engineering industries. Challenges in the sector remain significant as rising construction costs, tightened regulations, and weak demand continue to burden companies.

Rising Attractiveness of Commercial Property Conversions Despite High Costs

The conversion and repurposing of commercial properties in Germany are becoming increasingly attractive, even though the costs are comparable to those of equivalent new constructions. This is due to the higher planning and labor requirements, as well as the demanding sustainability standards that often entail additional efforts for existing buildings. The trend towards property conversions is primarily driven by the limited availability of inner-city plots, which are often already occupied by historically protected or architecturally significant buildings. Simultaneously, the use of the embodied carbon within existing structures is gaining importance as a key contribution to climate protection. As a result, commercial tenants are increasingly opting for well-revitalized existing buildings in prime inner-city locations over new constructions.

Market Outlook 2025: Geopolitical Changes and Political Uncertainty in Germany

The year 2025 will be shaped by significant geopolitical developments. The re-election of Donald Trump as U.S. President introduces uncertainties for trade relations, particularly through potential tariffs that could weigh on German exports and the struggling automotive industry. These measures could also drive inflation higher on both sides of the Atlantic. In Syria, the end of the civil war appears imminent, which could bring positive humanitarian and potentially economic impacts. A return of Syrian migrants might ease the migration debate but could also burden the German labor market with the loss of up to 200,000 workers. By contrast, the conflict in Ukraine

remains unresolved, and Germany will continue to make significant investments in its defense capabilities. However, these expenditures might limit other economically vital initiatives in the federal budget. The federal election on February 23, 2025, is at the center of the national perspective. Although the Union emerged from the election as the strongest party, it remains unclear whether a stable government coalition will be formed. A renewed grand coalition is possible, but political compromises could hinder the implementation of urgently needed measures for the German economy, particularly for the construction and real estate sectors. Since the interest rate turnaround in June 2024, the ECB has implemented four rate cuts of 25 basis points each, bringing the rate down to 3%. Many experts in the financial markets are preparing for further rate reductions, with expectations of four additional cuts that could lower the ECB deposit rate to 2%.