

PERISKOP

Real Estate Market Report Germany

/ Q2 2025



1. GENERAL MARKET OVERVIEW

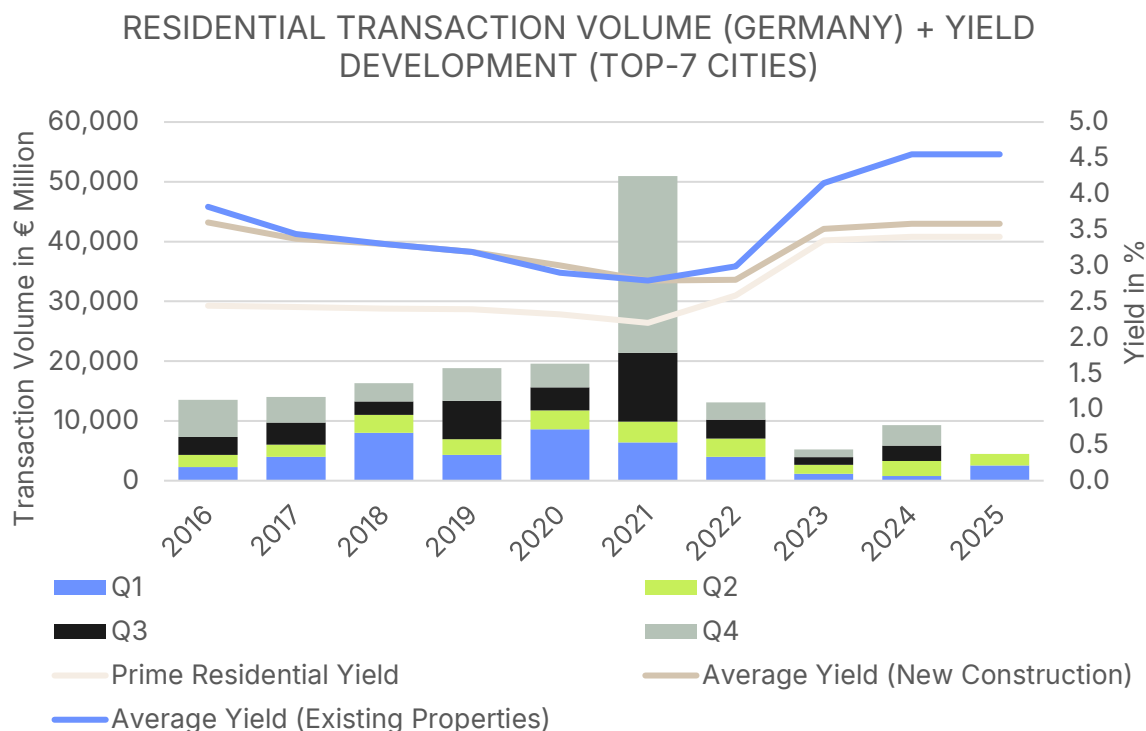
Economic Upswing Loses Momentum in the Second Quarter of 2025

After a lively start to the year, the momentum of the German economy weakened significantly in the second quarter of 2025. While business expectations brightened somewhat, industrial production and incoming orders remained volatile, and foreign trade dampened growth: following front-loading effects in the first quarter of 2025, exports to the U.S. in particular declined again. Domestic economic activity presented a mixed picture: while real retail sales (excluding motor vehicles) fell in May, new car registrations by private individuals rose in June. The hospitality sector also reported higher revenues, yet geopolitical uncertainties and a persistently weak labor market are weighing on household consumer sentiment. The inflation rate dropped to 2.0% in June, primarily due to lower energy prices; food price inflation also eased, and the core inflation rate slightly declined to 2.7%. A stabilization at this level is expected for the remainder of the year. There was no sign of recovery in the labor market at the end of the quarter: employment stagnated in May, while unemployment rose by 11,000 in June—more than usual. Finally, the number of corporate insolvencies increased by 6.6% in April 2025 compared to the previous month, and by 11.5% year-on-year; although the IWH Monitor reported a 3.9% decline in June compared to May, there was still a 22.6% increase year-on-year. Overall, the economic recovery appears to be losing further momentum.

German Residential Property Transaction Market Continues to Gain Momentum

In the first half of 2025, a total of €4.0 to €4.5 billion was invested in German residential properties with 50 or more units—around one billion more than in the same period of the previous year, representing a 41% increase. This placed the residential sector at the top of the investment market with a 27% market share, ahead of retail, logistics, and office real estate. While the five-year average stands at €7.3 billion, this figure is skewed by mega-deals such as Vonovia's takeover of Deutsche Wohnen.

In the core and core-plus segments—where investors focus on stable cash-on-cash returns and dynamic rental growth—€1.2 billion was invested in the second quarter of 2025 alone. Some buyers are already willing to pay more than 20 times the annual net rent, indicating sustained price stability for prime assets in top locations. On the buyer side, asset and fund managers dominated, followed by traditional real estate companies and the public sector. The largest net sellers remained open-ended real estate funds.



Source: CBRE Research + BNP Paribas, as of: 30.06.2025

Building Permits +4.9% / New Construction Costs +3.2%

According to the Federal Statistical Office (Destatis), a total of 18,500 housing units were approved in April 2025, representing an increase of 4.9% compared to April 2024. Between January and April 2025, the number of approved housing units reached 73,900—up 3.7% year-on-year. However, given the strong demand for affordable housing and the sharp declines in permits in recent years, these increases remain insufficient to mark a turning point in the housing market. For the year 2024, Destatis reported 251,900 completed housing units, a decline of 14.4% compared to 2023. The construction backlog—units that have been approved but not yet completed—fell to 759,700 by the end of 2024, of which 330,000 were already under construction. The construction industry expects a further decline in 2025, followed by a modest recovery starting in 2026. Prices for new residential construction in Germany are rising faster than overall inflation. In May, the cost of building conventionally constructed residential buildings increased by 3.2% compared to the same month last year, according to Destatis. For comparison, the inflation rate in May was 2.1%.

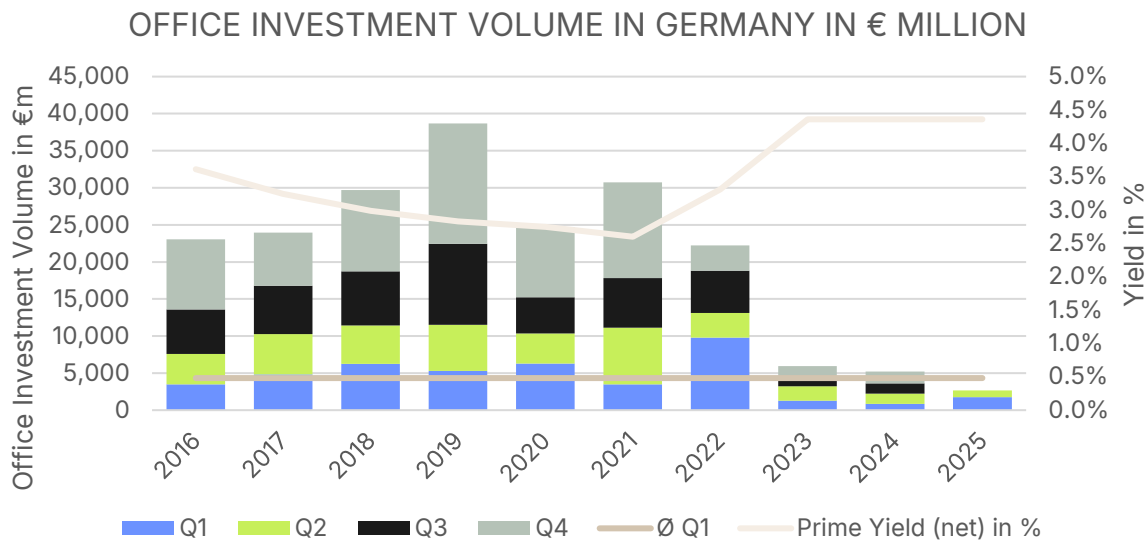
Collapse in Construction Starts Urges Action: Residential and Commercial Projects Nearly Halved

The Bulwiengesa Development Monitor reports a dramatic decline in construction starts for professional residential and commercial projects over the past six months: compared to the record year 2022, starts have dropped by 73% overall, and by as much as 85% for residential developments. Of the 21,436 tracked projects (totaling 173 million sqm) scheduled for completion between 2022 and 2029, more than half are now delayed. While commercial segments such as office (–8.4%), logistics (–8.3%), and hotels (–8.0%) have declined more than residential (–5.1%), a lack of financing for new developments—particularly from institutional investors—is adding to the challenges. These investors are shifting toward completed projects with price-to-rent multiples of 22–23 instead of the previous 27–28.

Rent increases of around 20% are not enough to offset rising construction costs, and the marketing of newly developed residential units is taking longer. Bulwiengesa calls this trend "a warning sign," while the BFW (Federal Association of Independent Real Estate and Housing Companies) is calling for the reinstatement of KfW-55 subsidies to support the construction of up to 60,000 urgently needed housing units.

Office Market Slump Persists

In the first half of 2025, transaction volumes in the German office real estate market were significantly below previous years. Savills reports a transaction volume of €1.86 billion across the six largest cities—a 32% decline compared to the previous year and 78% below the ten-year average. BNP Paribas Real Estate (BNPPRE) cites a total volume of €2.7 billion, with 80% attributed to the major A-cities. However, figures remain inconsistent: for the traditional top six cities (excluding Cologne), the volume is only €1.71 billion. Still, BNPPRE speaks of a roughly 20% market increase, likely due to the inclusion of smaller regional locations. JLL estimates total office transactions at €2.83 billion—around 10% more than the previous year. However, two-thirds of this volume occurred in the first quarter, indicating a weaker second quarter. Despite some discrepancies, both BNPPRE and JLL agree that prime yields have remained largely stable. BNPPRE puts the average net prime yield across all A-cities at 4.36%. Munich remains the most expensive market at 4.20%, followed by Berlin and Hamburg at 4.25% each. Cologne and Stuttgart follow at 4.40%, while Frankfurt and Duesseldorf currently offer the highest yields—and are thus the most affordable—at 4.50% each. Despite subdued investment volumes still well below the long-term average, BNPPRE sees slow but steady market recovery. For the second half of 2025, the company anticipates a noticeable uptick in activity.



Source: BNP Paribas, as of: 30.06.2025

Housing Minister Announces Comprehensive Reforms – Including in Social Housing

Federal Housing Minister Verena Hubertz (SPD) attributes the weak construction activity to high costs, complex permitting processes, and non-transparent subsidy conditions. Germany is building too little and too slowly. To counter this, she announced a package of tax incentives, faster planning procedures, and simplified subsidy programs. The planned "housing construction turbo" aims primarily to reduce the construction backlog—around 760,000 approved but not yet implemented housing units are to be realized more quickly. At the same time, the federal government wants to place greater emphasis on serial and modular construction methods, which can lower costs and speed up implementation. Social housing subsidies are also to be continued. Experts estimate that millions of social housing units are missing in Germany. Since the 1980s, the number of such units has dropped from four million to around one million. According to calculations by the Pestel Institute, approximately 11.5 million households in Germany are eligible for social housing.

"Housing Turbo" Approved: Residential Construction Without Zoning Plans from Single Units Onward

The federal government has passed the draft bill for the "Housing Turbo," amending the Federal Building Code to allow municipalities to approve projects in inner urban areas—from single-family homes to multi-family buildings—without complex zoning plans. Under pressure from the CDU/CSU, the provisions were expanded to include single-family homes, while the SPD ensured that the same facilitation applies to social infrastructure such as daycare centers and schools. Developers may, in justified cases, deviate from noise protection regulations, and commercial businesses must be protected from neighbor lawsuits. Municipalities retain veto rights, and environmental

assessments remain mandatory. The goal is to build up to 75,000 additional housing units per year and save around €2.5 billion annually, while the ban on converting rental to ownership units is extended through 2030. The industry welcomes the step in principle but continues to call for broader relief measures and more stable funding frameworks.

Investment Boost for Housing Construction

The federal government is shifting the financing of new construction and home purchase subsidy programs from the Federal Ministry for Housing to the special infrastructure fund. Over €11 billion from this fund will be allocated to housing construction, including programs previously financed through the Climate and Transformation Fund (KTF): "Climate-Friendly New Construction", "Affordable Climate-Friendly New Construction", and the homeownership scheme for families. The 2025 draft federal budget earmarks €327 million from the special fund for the ministry, which has a total budget of €7.37 billion—about €700 million more than in 2024. For 2026, the budget is set to rise further to €7.6 billion, with the ministry receiving an investment budget exceeding €3 billion. Minister Hubertz called this increase an "investment turbo", particularly for social housing: €3.5 billion is earmarked for subsidized housing in 2025, rising to €4 billion in 2026.

Residential Construction Continues to Decline Across Europe

According to EUROCONSTRUCT—a research network that includes the ifo Institute—the number of completed housing units in Europe continues to fall. For 2025, only 1.46 million new units are expected, down from 1.55 million in 2024. In 2026, a slight rebound to 1.51 million units is forecast. The main reasons for the decline are high interest rates, reduced purchasing power, rising construction costs, and varying political conditions across countries, especially regarding subsidies and tax incentives. Only a few countries such as Czechia (+27%), Sweden (+21%), and Hungary (+20%) are seeing positive trends. In contrast, ten countries are recording continued declines, including France (–14%) and the UK (–10%). In terms of population, only Ireland, Poland, and Switzerland are projected to deliver more than five new housing units per 1,000 inhabitants in 2025. Germany, the UK, and Spain will see just over two units per 1,000 residents, France 3.7—and Italy ranks last with only 1.6 units.

Real Estate Service Providers Drive Insolvency Figures – Builders and Developers Remain Stable

In Q1 2025, insolvencies in the real estate sector rose by more than 15% compared to the previous quarter, while the broader economy saw an increase of 6%. The rise is mainly driven by bankruptcies among downstream real estate service providers—from interior fit-out firms to facility management. In contrast, the number of insolvencies

among construction companies and project developers remained nearly unchanged, with only a modest increase of 1.6%. This low insolvency rate in the construction segment points to an ongoing market shakeout, which has led to temporary stabilization among developers and structural contractors. However, the effects of project stoppages and reduced investment activity are now increasingly impacting those segments that had previously benefitted from existing orders.

2. SPECIAL MARKET OVERVIEW – TOP 7

Office Market – Decline in New Construction, Rising Vacancies, and Growing Prime Rents

While new construction in the top 5 locations has dropped significantly by 23% to just 475,000 sqm (C&W), total office take-up across the top 7 German cities increased by 9% to 1.4 million sqm (JLL). However, many companies are reducing their office space—either by relocating to smaller, more attractive locations or by returning subleased space—thus driving up vacancy rates. The five top cities report a 1.4 percentage point increase in vacancy to 8.9%, with Munich and Berlin showing the highest growth, while Duesseldorf and Frankfurt have surpassed the 10% mark. Altogether, the top 7 markets now have about 8 million sqm of vacant space—nearly triple the volume from 2019. Demand is largely focused on modern, centrally located offices, which remain in short supply. This scarcity is pushing up rents: average asking rents rose by 22% in Cologne to €23/sqm and by 21% in Frankfurt to €30/sqm. Prime rents held steady or increased slightly (Frankfurt +9% to €51/sqm, Stuttgart +6% to €37/sqm). Overall, the market remains unsettled, caught between rising demand for high-quality space and growing vacancies outside core locations.

Commercial Real Estate Market H1/2025: Transaction Volume Hits Lowest Level Since 2009

The transaction volume in the commercial real estate sector across the seven major German markets fell by 22% in H1 2025 to approximately €3.6 billion—the lowest level since 2009. Although a few large-volume transactions occurred, they were not sufficient to offset the ongoing caution of many institutional investors. Office properties accounted for 36% of the total volume, followed by mixed-use assets (25%) and “other” assets (15%), notably a senior care portfolio in Hamburg.

Residential Investment Market Continues Positive Trend

According to the ImmoScout24 Residential Barometer, asking prices in Germany continued to rise noticeably in Q2 2025. Prices for existing apartments rose by an average of 3.4% year-over-year, while prices for new-build properties increased by 1.6%—the first positive movement after a decline in the previous quarter. Among the major cities, Duesseldorf (+4.0%) and Stuttgart (+3.9%) saw the highest increases in existing housing. For new-build listings, Hamburg (+4.8%) and Cologne (+3.6%) led the ranking, closely followed by Berlin at +3.5%. The House Price Index from the Federal Statistical Office also reports increases in both new and existing housing nationwide. In the seven largest cities (Berlin, Hamburg, Munich, Cologne, Frankfurt, Stuttgart, and Duesseldorf), condominium prices rose by 3.8% year-over-year, and in other independent major cities by an even stronger 6.1%.

80% of Investors Plan to Increase Residential Allocations – Student Housing in Focus

According to the “European Living Survey 2025” (C&W), around 80% of surveyed investors plan to increase their exposure to the European residential real estate market over the next five years. The UK remains at the top of investors’ target countries, followed by Spain and Germany. Student housing remains in particularly high demand: two-thirds of respondents intend to invest in this segment within the next three years, driven by solid fundamentals, expected rent growth above inflation, and relatively light regulation.

Serviced Apartments on Growth Trajectory – Rates and Occupancy Up

After a sharp downturn in 2023, the German serviced apartment market is regaining momentum: with approximately 55,200 units in over 1,000 buildings, the current supply is well above the 44,400 units recorded in 2023. A development pipeline that was estimated at 16% a year ago is now projected to grow to 28% of the total stock by 2028—equivalent to over 15,000 additional units. About 42% of all units are located in the top 4 cities (Berlin, Munich, Frankfurt, and Hamburg), though demand continues in secondary and tertiary locations as well. The largest operators remain Adina Hotels and WMM-Hotel thanks to modular construction. New players such as Numa, Limehome, Novum Hospitality, and Stayery are aggressively expanding their pipelines and reshaping the competitive landscape. As portfolios grow, the average daily rate (ADR) rose to €91 in 2024 (up from €89 in 2023). The average occupancy rate was 81% (2023: 82%). This confirms strong demand for flexible, furnished housing—and the sector remains optimistic about the years ahead.

3. SPECIAL MARKET OVERVIEW — BERLIN / BRANDENBURG

Berlin Investment Market

Despite a year-on-year decline of approximately 35%, Berlin continues to register the highest transaction volume among all major German cities in the first half of the year, reaching around €1.3 billion. Munich follows at a distant second with €0.9 billion. The main driver was the sale of the “Upper West” property for over €400 million. At the same time, investor interest in small and mid-sized assets increased significantly. Net prime yields remained unchanged due to elevated financing costs and geopolitical uncertainties: 4.25% for office and logistics properties, and 3.70% for premium high-street retail. Office assets accounted for over half of the transaction volume, while hotels represented around 14%. More than 80% of all deals took place in central and top locations, where nearly €1 billion was transacted.

Residential Real Estate in the Berlin Commuter Belt Shows Strong Real Value Growth

According to an analysis by the Hamburg Institute of International Economics (HWWI) published in the Postbank Housing Atlas 2025, the average inflation-adjusted increase in prices for existing condominiums in German districts and independent cities is forecast at 0.4% per year through 2035. The highest growth is expected in dynamic urban centers and the surrounding areas of Germany’s seven largest cities. Following Leipzig, several districts in Brandenburg near Berlin (Barnim, Oberhavel, Teltow-Fläming, Dahme-Spreewald, Märkisch-Oderland) lead the ranking with projected annual real price increases between 1.1% and 1.3%.

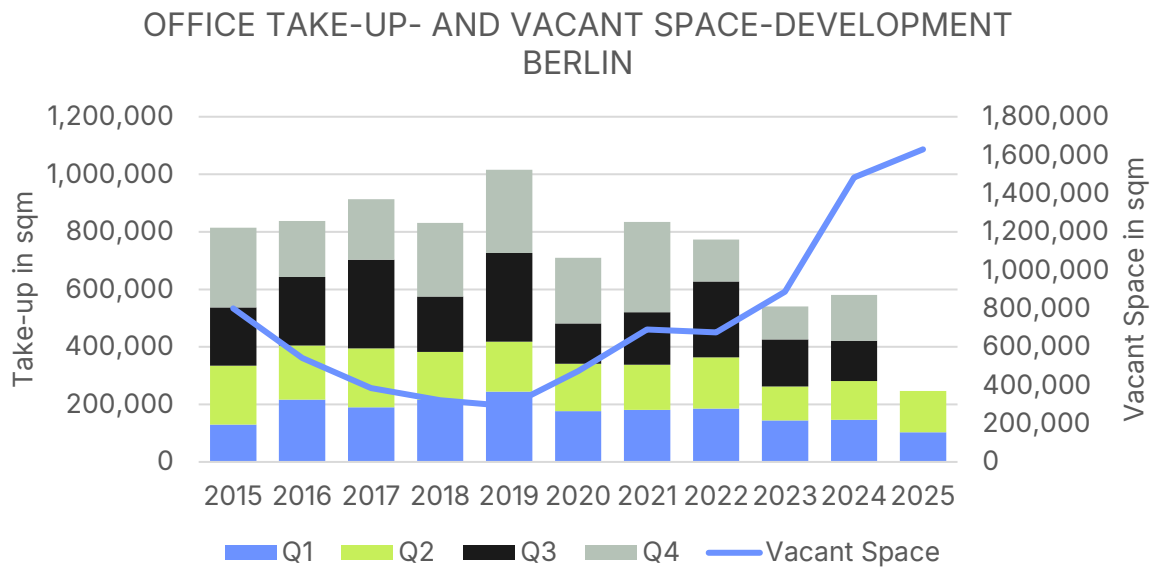
Student Housing Market: Berlin Among the Lowest-Risk Cities Alongside London and Paris

The first-ever Student City Index published by Patrizia analyses 184 university cities in 21 European countries based on fundamental data (demographics, student population, academic reputation) and market liquidity. For the first time, London, Paris, and Berlin are ranked as the least risky markets for private student housing investments. According to Patrizia, prime net initial yields in these top-tier cities range between 4.2% and 5.0%.

Berlin Office Leasing Market Sees Weak First Half-Year

In H1 2025, Berlin’s office leasing market posted the weakest half-year result in a decade, with take-up volumes ranging between 238,000 and 256,300 sqm (depending on the brokerage firm), marking a 12% to 20% drop compared to the previous year. While Q2 2025 showed an increase of up to 33% versus Q1 2025, volumes still fell short of the five-year average. Nearly 75% of all leases were small to mid-sized deals under 2,000 sqm. Prime rents remained stable at €44.50–€47.50/sqm, while the weighted

average rent declined by around 2% – 3% to €27.00–€28.20/sqm. Vacancy rates rose to between 7.1% and 7.9%, representing an increase of up to 1.5 percentage points year-on-year. For the full year, brokerage firms expect total leasing volume to remain slightly below 2024 levels, with vacancies continuing to rise. Demand is expected to concentrate on modern, sustainable spaces—both new and existing—in prime locations.



Quelle: BNP Paribas, as of 30.06.2025

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GENERAL MARKET OVERVIEW

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