

Catella: Positive outlook for German real estate markets in 2018

Rising rents, falling vacancy rates, residential climbing to third-strongest asset class, retail under pressure.

The latest overview of the 2018 German rental and investment markets from Catella Research shows that the economic situation is supporting the positive trend.

The nation is in a very good position economically, with a recent correction of the GDP growth forecast to 2.2% by 2019. The boom is becoming more dynamic due to very good consumer conditions and higher exports rates. Expected wage agreements in the coming quarters lead us to believe that the consumption rate in Germany will be at a very high level for the seventh year in a row.

For the next four quarters, Catella Research expects a similarly high uptake of office space, even though the strong focus on CBDs until now is shifting towards outskirts/arterial roads/development areas.

We expect:

- A significant decline in vacancies due to strong take-up and refurbishment (including repurposing for residential use).
- A slight increase of prime rents in the new-build/first-time occupancy segment (+1.5%) for 2018.
- Excellent economic growth will be apparent in existing properties, where average rents will increase by approximately 2.5% for new contracts or extensions (after refurbishment).
- A slight decrease in transaction volume due to extended due diligence, a shift towards portfolios, and foreign investors causing significant internationalisation of the market.
- By mid-2018 yields will sink to approximately 3.25% in the top 7 markets because of the increasingly competitive position, premium mark-ups for trophy buildings and portfolios becoming the norm.

“No question. The socio-economic signs for 2018 could not be better; the quantifiable risks are included in this,” says Dr. Thomas Beyerle, Head of Group Research at Catella. He continues, “No significant interest rate increase is currently expected, but instead an increasingly competitive market in which the quality of the properties is slightly declining. The boom in residential investments will sustain throughout 2018. By the end of the year, retail could lose its traditional second spot in turnover rankings to the residential segment,” Beyerle predicts.

Investments in retail properties will come under strong pressure, and Beyerle expects a price correction. Investors are increasingly seeing short-term leases, even in prime locations, and are faced with structurally decreasing footfall, a lack of innovation, and underestimation of consumer digitalisation.

View the complete analysis at catella.com/research.

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