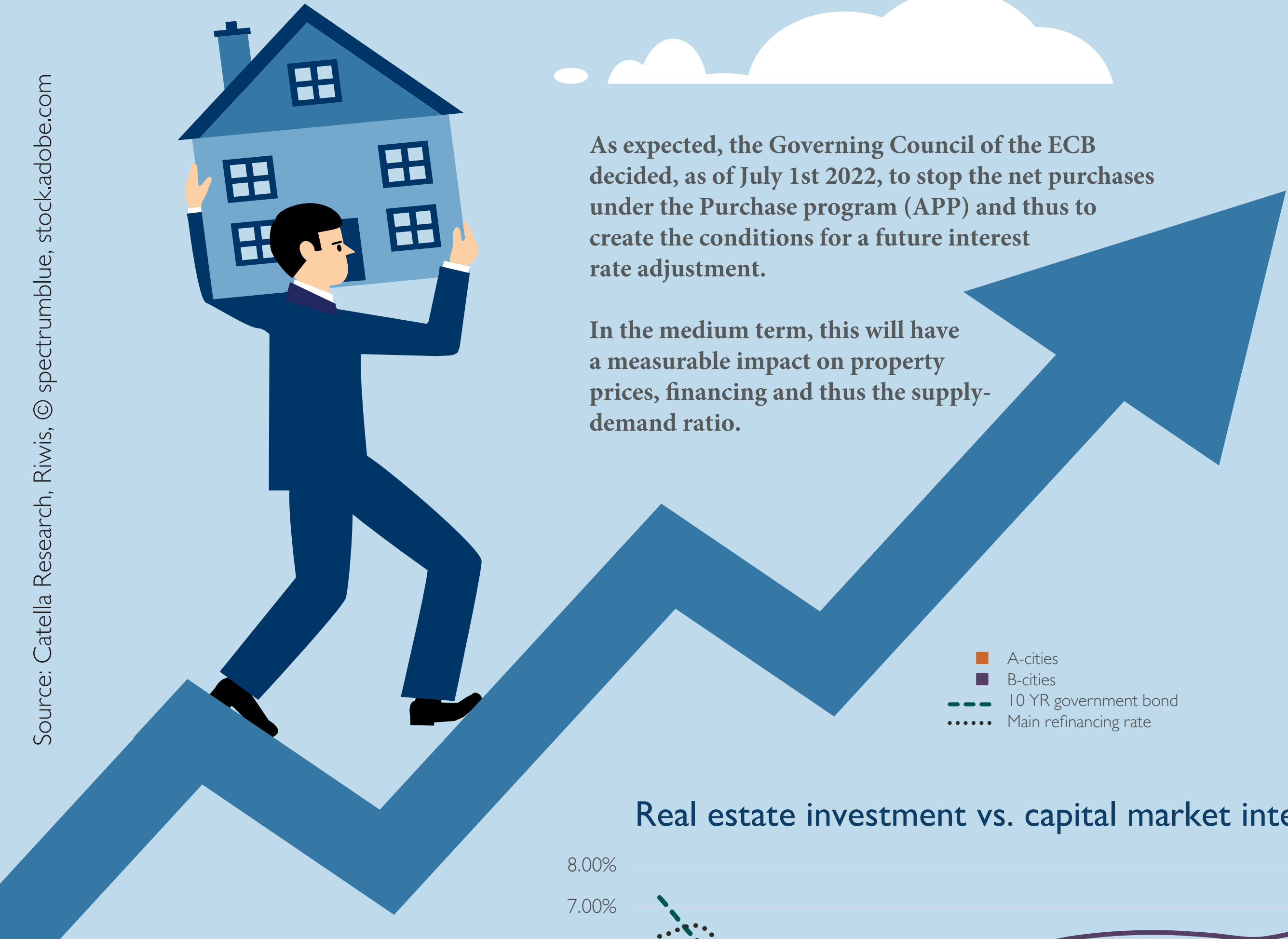
# Real Estate, Inflation & Interest Rates

CATELLA



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**As expected, the Governing Council of the ECB decided, as of July 1st 2022, to stop the net purchases under the Purchase program (APP) and thus to create the conditions for a future interest rate adjustment.**

**In the medium term, this will have a measurable impact on property prices, financing and thus the supply-demand ratio.**

**Expected scenario after interest rate adjustment**

- Reduction of existing excess liquidity and thus reducing the pressure on the overheated real estate markets
- Interest security and fixed interest rates are becoming more relevant – Demand for real estate will remain at a high level in the medium term
- Rising construction costs and shortage of raw materials and skilled workers maintain price pressure on existing properties in the short term
- Strong capital redirection, especially in existing properties – "manage to green"

→ **Rising interest rates lead in the short term to a sideways movement of real estate prices**

**Response from Investors:**

- Continued focus on CBD locations/new construction/ESG compliant
- Value add properties under market value adjustment pressure, but afterwards opportunities for refurbishments at mobility hubs (ESG compliant)
- "Portfolio play" in response to increasing decarbonization efforts

The pressure on the ECB increased in the recent months through the high inflation values steadily increasing. With 8.1% in the euro area, the inflation rate in May was on a new record high. The first interest rate hike after 11 years could therefore, at least partially, curb inflation, which continues to be driven by rising energy prices.

## Real estate investment vs. capital market interest rates over time (GER)