BNP PARIBAS REAL ESTATE

Real Estate
for a changing world

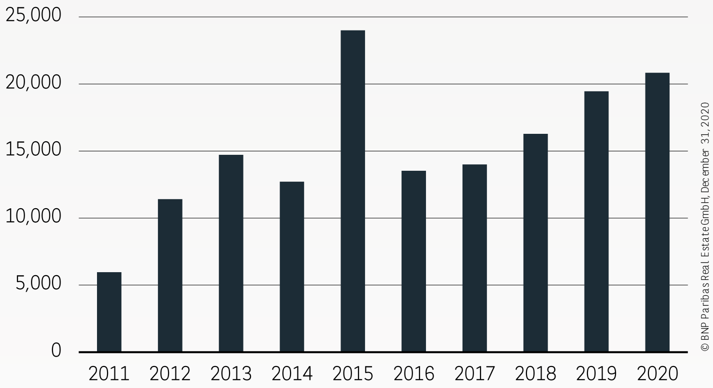
RESEARCH

At a Glance Q4 2020

# RESIDENTIAL INVESTMENT MARKET GERMANY

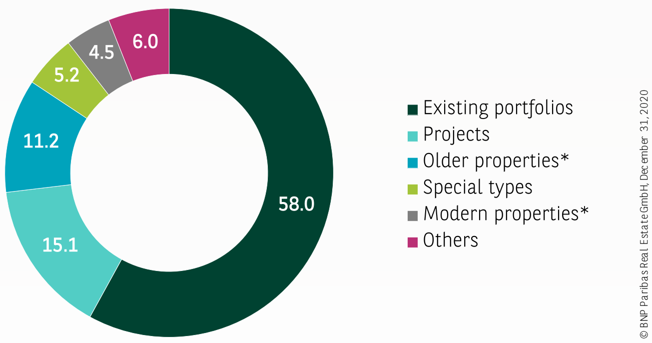
### Investment volume residential portfolios

in €m




### Investments by asset class 2020

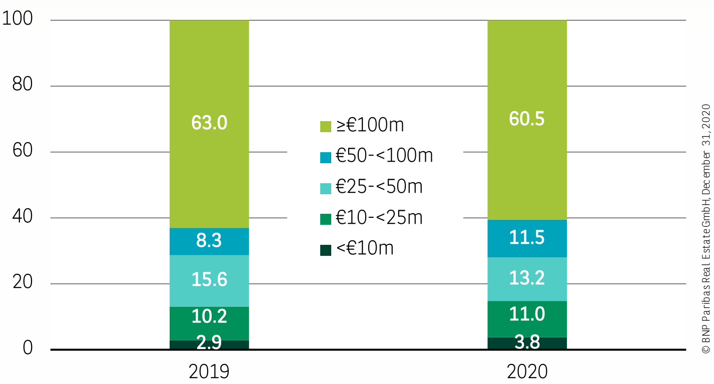
in %




* Block sales in one location

### Investments by size category

in %




## RESIDENTIAL INVESTMENT MARKET IS CRISIS RESISTANT

While the past year has certainly left its mark on the real estate sector as a whole, it also showed that the different asset classes are very heterogeneous in terms of their robustness. Taking a look at the investment volume with larger residential portfolios (30 residential units or more) of € 20.8 billion, it becomes impressively clear that the residential investment markets are particularly crisis resistant and can certainly be seen as a kind of winner in comparison to other market segments. Despite the major economic uncertainties and the ongoing discussions about regulatory instruments, the year 2020 even recorded the second-best result ever. It is also more than 36% above the long-term average. The already strong previous year figure was exceeded by a good 7%. The acquisition of Adler Real Estate by Ado Properties in the first quarter, which accounted for more than 25% of the overall result, also contributed to this. Nevertheless, even after deducting this major transaction the result does not reveal a year of crisis.

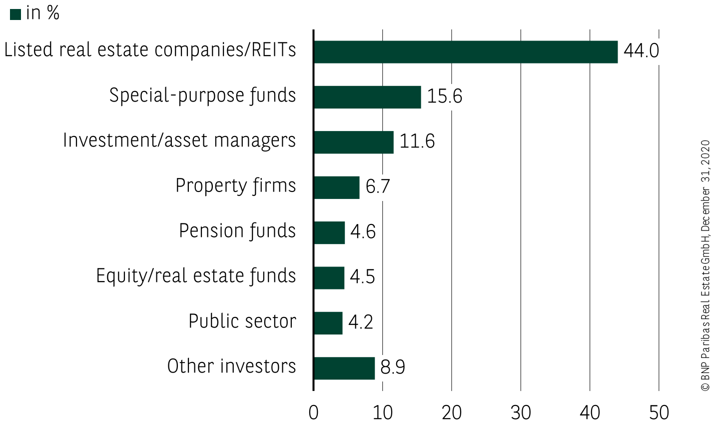
## PROJECT DEVELOPMENTS ARE SCARCE

With a share of 58%, the existing portfolios currently dominate the distribution of investment volume by asset class, which is unsurprising given he Adler takeover. Since 2015, project developments have always contributed at least one-fifth to the result, but in 2020 their market share is significantly below average with just over 15%. However, this is primarily attributable to insufficient supply. Older existing properties (block sales at one location) are in third place with around 11%, followed by special housing types (5%). At 4.5%, modern existing properties also achieved a strong result in a long-term comparison. Particularly noticeable in this regard is the sharp rise in construction activity since the middle of the last decade.

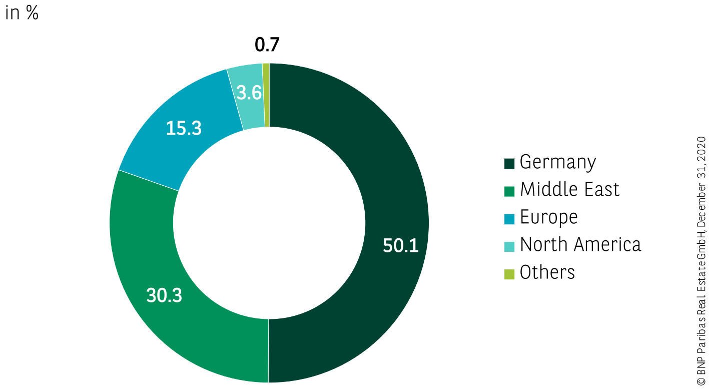
## SMALL-SCALE SEGMENT MORE IN DEMAND THAN EVER

Due to the aforementioned Adler acquisition, large deals above the 100 million € mark (60.5%) dominated the overall result as is tradition. However, the high level of activity in the small-ticket segment is another clear evidence of the residential investment markets' resilience to the crisis. At € 3.1 billion, more than ever was invested in the size segment up to € 25 million investment volume. By comparison, the long-term average in this size category is only € 2.1 billion.

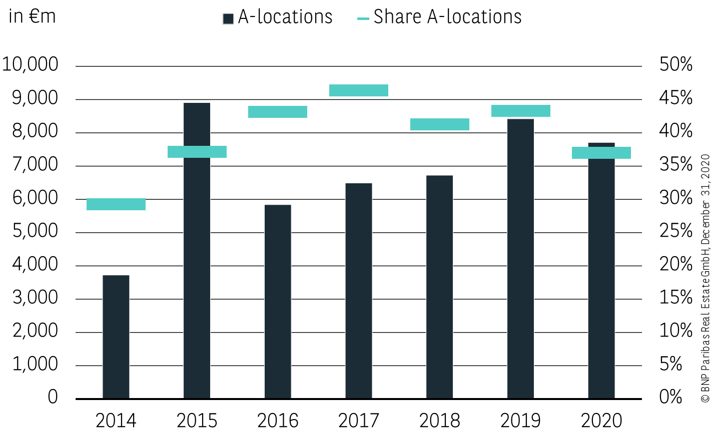
## Investments by buyer group 2020




## Investments by origin of capital 2020




## Investment volume A-locations and share of total volume




## LISTED REAL ESTATE COMPANIES EXTREMELY STRONG

Just as in many years of the recent past, Real Estate companies/REITs were the most important group of investors in 2020. However, at almost € 9.2 billion, they achieved an extraordinarily good result even by their standards. One of the reasons was the Adler takeover. In second place by a wide margin were special funds (16%), followed by investment/asset managers (12%). Driven by the acquisition of 3,900 apartments in Berlin by Heimstaden Bostad, investment/asset managers achieved their best result to date. A look at the widely diversified remaining investor pool illustrates the great demand for robust residential investments. A trend that is likely to continue beyond the crisis.

## FOREIGN INVESTORS CLOSE TO THE 50% MARK

In recent years, the German residential investment market has always been in the hands of domestic investors. On average, they accounted for more than 80% of investment volume. As a result of the takeover already mentioned and a very high level of activity from other European countries (a good € 3.2 billion), the international share, at 49.9%, is close to the 50% mark for the first time since 2008.

## A-CITIES WITH VERY GOOD RESULT

At more than € 7.7 billion, A-cities recorded an 8% lower result than in 2019. However, this is rather attributable to the strong previous year than to a significant decline. The current result is also around 36% above the long-term average. With just under € 3.9 billion, Berlin is once again the benchmark and records an investment volume that is roughly equivalent to the aggregated total of all other A-cities combined. However, Frankfurt (€ 1.3 billion), Hamburg (€ 1 billion), Munich (€ 628 million) and Düsseldorf (€ 575 million) also achieved strong figures. The result of the banking and finance metropolis even represents the best result ever recorded. By contrast, Cologne (€ 307 million €) and Stuttgart (€ 30 million) suffered a drop.

## OUTLOOK

Although the current winter half-year is dominated by the Corona crisis, the positive development of residential investments is likely to continue in 2021. Compared to commercial real estate, the asset class benefits from significantly lower rental default risks. At the same time, demand from occupiers remains high and is still being met by a shortage of supply, particularly in metropolitan areas. The fundamentals of the market remain in good shape and therefore continue to offer investors favourable conditions, so that a result at least in line with the long-term average seems likely for 2021.



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