Facts and Figures

Investment Market for Residential Portfolios Germany
2023

NAIapollo

“An investment in knowledge pays the best interest.“

Quote from Benjamin Franklin

If you require any further information, please do not hesitate to contact us. We can put you in touch with our specialists who are always happy to provide you with expert support.
We look forward to hearing from you!

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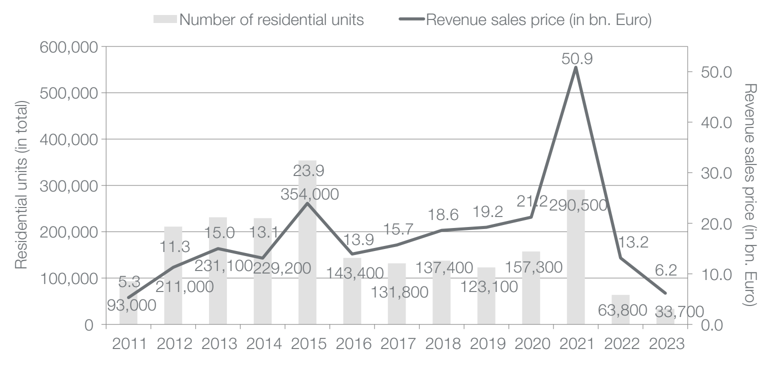
Market overview 2023

Transaction volume	€6,2 billion at the lowest level since 2011
Sales of residential units	33,700 or 47 percent less than in the prior-year period
Regional focus	Berlin with most transactions, A-/B-Cities in focus of demand
Type of investors	Strongest buyer are the "Asset Managers / Funds Managers"
Origin of investors	German investors dominate buy-side despite decline of over 47 percent

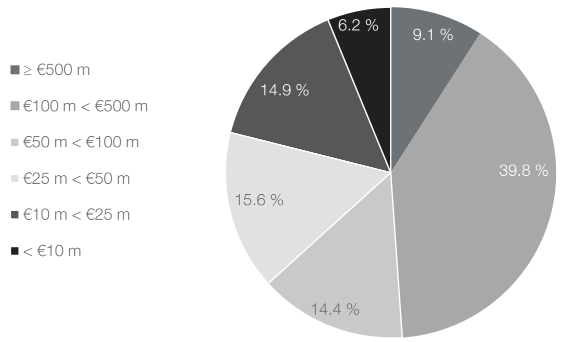
Source: apollo valuation & research GmbH

Transactions 2011 – 2023



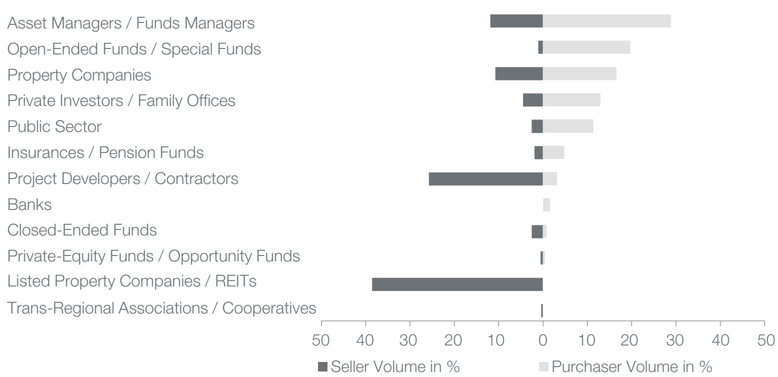
Source: apollo valuation & research GmbH

Volume of transactions according to category size 2023



Source: apollo valuation & research GmbH

Transaction volume according to type of investor 2023



Source: apollo valuation & research GmbH

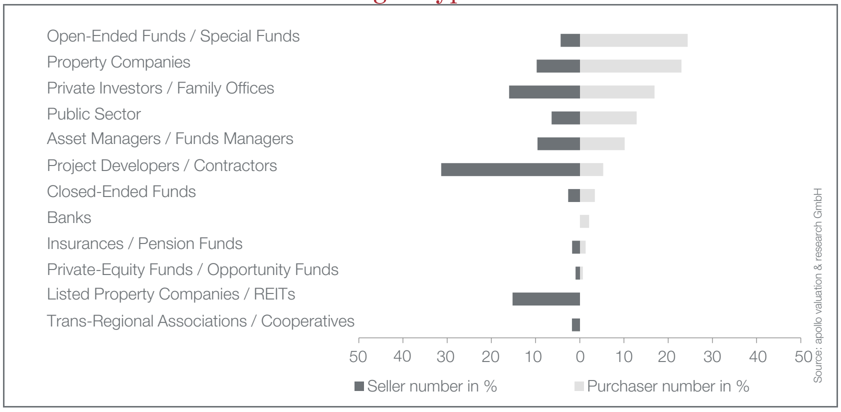
*Sale of residential property portfolios or residential complexes with at least 30 units each as well as the sale of corporate shares which give the purchaser a controlling interest; without consideration of IPOs

Owing to weak quarterly results and ongoing market uncertainty, residential portfolios* with a total value of only €6.2 billion were traded on the market for residential portfolio transactions in 2023. This represents a decrease of 53 % compared to the already low result of the previous year. A weaker outcome than this was last recorded 12 years ago, in 2011. With a volume of over €1.4 billion, the fourth quarter was in line with the prior three months but was far below the results of previous fourth quarters (average Q4 results 2018-2022: €9.4 billion).

The investment market for residential portfolios continued to underperform as a result of the difficult financing conditions, economic weakness and the uncompleted pricing negotiation phase between sellers and buyers. Large deals were in short supply, with demand primarily aimed at properties in the low to mid-priced portfolio segment. High interest rates coupled with high building costs and the end of federal government funding programmes have hampered investment activity. The increasing pressure to address ESG issues and the crisis on the project developer market have also added to the uncertainty for market participants. The shortage of living space continues to prop up the market, while the need for living space is increasing. This has resulted in further rental price growth, which is essential for the stabilisation of capital values.

In the past 12 months, around 33,700 units changed hands, which represents a decrease of 47.1 % compared to 2022. The majority of traded properties fall within the value-add segment.

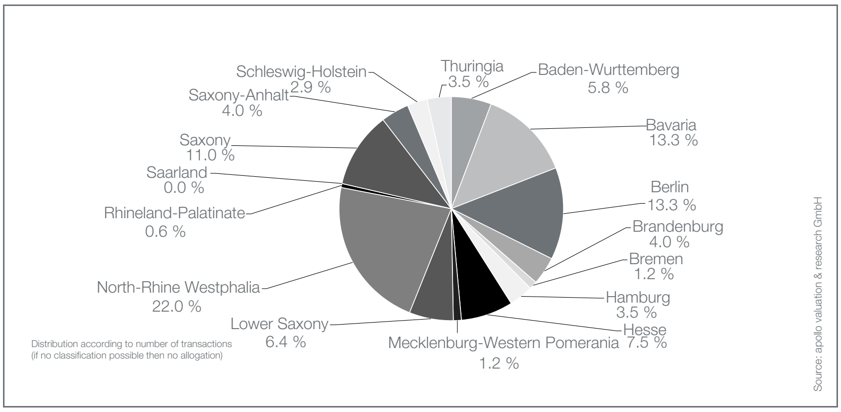
Transaction number according to type of investor 2023



Transaction volume according to investors‘ origin 2011 – 2023

Transaction number according to investors‘ origin 2011 - 2023

Distribution of transactions 2023



However, trading in core and core-plus properties was also of consequence, particularly because they often comply with ESG criteria that is playing an increasingly important role in acquisition profiles. Taking all recorded transactions into account, and without distinguishing between property and location factors, the average price per residential unit amounted to around €183,000 in 2023. This is therefore more than 11 % lower than the previous year’s average of €206,000 per unit.

Trading in portfolios with a value of over €500 million was limited to a single transaction last year, as was the case in the previous year. This concerned the sale by Vonovia of a total of 1,350 newly built residential units to CBRE Investment Management for about €560 million in the second quarter of 2023. The “€100m < €500m” size category accounted for the biggest share of sales in 2023 with 39.8 % or around €2.5 billion (2022: €4.8 billion). Investments below €100 million amounted to over €3.1 billion (2022: €7.7 billion). All price segments above €10 million therefore registered year-on-year declines in sales. However, the volume of smaller deals below €10 million exceeded the previous year’s result by over 20 %. Demand for investment opportunities in the single-digit million range remained high throughout the year.

The 30 % investments by US financial investor Apollo in two large residential portfolios owned by Vonovia with a total of over 50,000 residential units were not taken into account in the analysis. The condition that majority control must be achieved when acquiring shares in a property or property company was not met in both transactions.

High interest and construction costs have caused a significant slowdown on the project development market as well as related transaction activities. The transaction volume generated by forward deals fell from €5.6 billion in the previous year to just under €1.4 billion. Thus the market share fell from 42.6 % in 2022 to 22 %. Not only existing properties that are modern and energy-efficient can benefit from this, but also older properties that allow for greater value appreciation when implementing manage-to-green strategies.

“Asset Managers and Funds Managers” represented the most active buyer group throughout the year, with a market share of 28.9 % for the year as a whole (2022: 14 %). At around €1.8 billion, their investments almost matched the previous year’s level. The previous year’s leaders, “Open-Ended Funds and Special Funds”, fell to second place with €1.2 billion or a share of 19.7 %. Listed property companies, which attracted attention in the pre-crisis years with large, heavily leveraged transactions, are currently not active on the buyer side. Instead, motivated by their need to secure liquidity, “Listed Property Companies and REITs” are playing a dominant role on the sell-side with a sales volume of €2.4 billion (2022: €1.6 billion). “Project Developers and Contractors” are the second most active group of sellers, even though the sales volume here has fallen from €5.9 billion in the previous year to €1.6 billion.

When analysing the origin of buyers, it becomes clear that purchasing activity has decreased significantly among both domestic and foreign investors. However, international investors saw a sharper year-on-year decline of 64 % to €1.6 billion compared to domestic players, which invested €4.5 billion or 47.3 % less than the previous year. As a result, the market share of German buyers increased by 8.1 percentage points to 73.2 %. This also reflects the more stable market activity for smaller lot sizes and the increase in deals in the single-digit million range. These segments are dominated by German buyers. In contrast, international investors, as in the past, tend to enter the scene when larger portfolios are at stake, but trading in such deals has registered a sharper decline in the current market environment.

In light of the ongoing market uncertainty, a short-term upturn in transaction activity is not expected in the first few months of this year. However, there are signs that market activity will increase later in the year.

The pressure to sell is growing in many places. We expect to see an increasing number of properties on offer that are due for refinancing. In particular, the large listed property companies will attempt to further streamline their portfolios in order to reduce debt. An increase in sales is also expected in the area of non-performing loans.

At the same time, the imbalance between housing supply and user demand is increasing, while the number of new completions is falling. A significant increase in rents, especially in metropolitan areas, should further stabilise the market and make residential investments increasingly attractive again, especially for long-term, equity-rich investors.

Although further price corrections cannot be ruled out for 2024, we do not expect prices to collapse across the market. Price expectations are becoming increasingly aligned, rents are experiencing dynamic growth and interest rates for construction financing have recently fallen.

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