Julius Bär

# PROPERTY MARKET REPORT GERMANY

Residential and investment properties in Top 7 cities
along with indirect real estate investments
2nd quarter 2026

Marketing material
Please note the important legal information at the end of this document.

Julius Bär

# Contents

# Current market environment

The German economy got off to a strong start in 2026, but faces headwinds as the year progresses. Geopolitical risks, rising energy prices, and potential supply chain disruptions are dampening growth prospects. The labor market continues to deteriorate, while inflation is picking up and a more restrictive monetary policy is becoming more likely.

### Downward revision of the growth forecast
In the first quarter of 2026, the German economy grew by 0.3 %. Since then, however, sentiment has deteriorated once again due to the effects of the war in Iran. Potential disruptions to supply chains and higher energy prices are dampening economic growth in the current year. As a result, growth forecasts for 2026 have been revised downward once again.

### The labor market continues to weaken
For the first time in 15 years, the seasonally adjusted unemployment figure has risen above 3 million again. The number of people in employment also peaked several months ago. Following a decline of 16,000 in February, the figure fell by another 25,000 in March. Germany is losing primarily well-paid jobs in the manufacturing sector, while jobs are being created in nursing and healthcare as well as in public administration.

### Interest rate hike likely in June
Pressure on the ECB to act is mounting as the Iran conflict drags on. Inflation in the eurozone rose to 3.0 % in April. After the ECB kept the deposit rate unchanged at its last meeting, a 25-basis-point increase is expected in June. With a key interest rate of 2.25 %, monetary policy is likely to approach neutral territory.

### Fiscal policy remains the main pillar
Despite the debt relief program, the German economy is failing to gain momentum. Structural problems persist, and sentiment indicators have recently deteriorated once again. If the Strait of Hormuz remains blocked in the coming months, growth prospects will deteriorate accordingly. Foreign trade is holding back growth, and consumption is being weighed down by subdued income expectations. Fiscal policy remains the main driver of the economy in 2026.

### Key figures at a glance

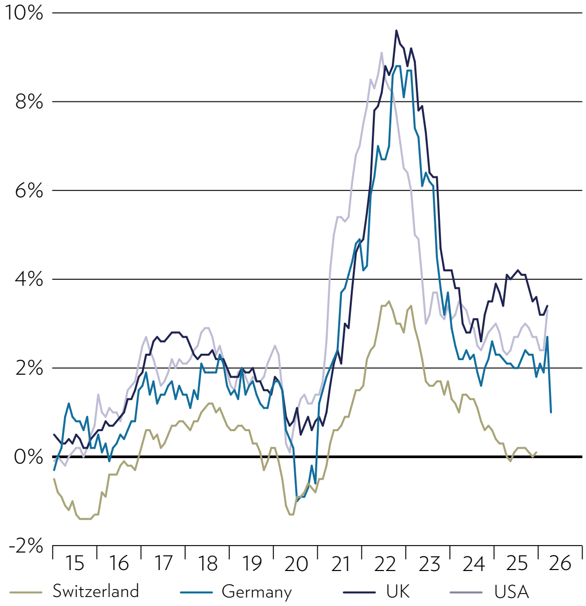
**Forecast 2026**

| | |
|---|---|
| Real GDP growth | 0.6% |
| ø last 10 years | 0.8% |
| Inflation | 2.7% |
| ø last 10 years | 2.6% |
| Unemployment rate | 6.4% |
| ø last 10 years | 5.7% |
| Household growth | -0.1% |
| ø last 10 years | 0.2% |
| New-construction rate (residential) | 0.4% |
| ø last 10 years | 0.7% |

as of May 2026
**Sources:** Julius Baer Research, Federal Employment Agency, Federal Statistical Office (Destatis)

## Inflation

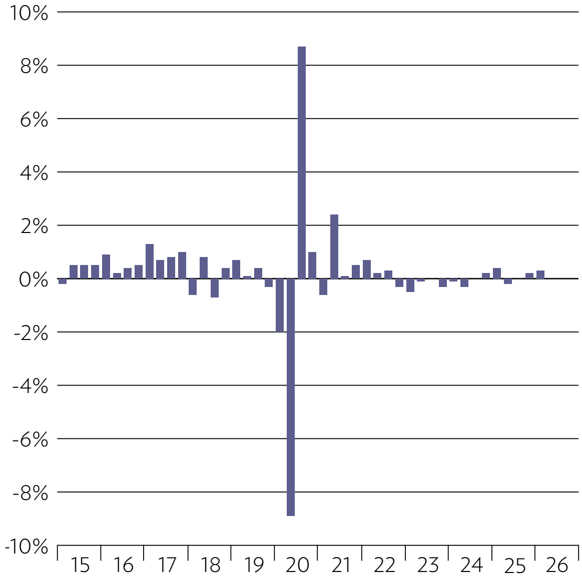
International comparison




As of March 2026 **Source:** OECD

## Economic activity

Germany




GDP Germany (real, seasonally, and calendar-adjusted, compared to the same quarter of previous year)
**Source:** Federal Statistical Office

## Interest rates


The 10-year Bund is the yield to maturity (YTM) of the most recent Federal bond with a 10-year term. The historical performance does not take into account any fees, commissions or other charges and is no guarantee of future performance. (ISIN: DE000BU2Z015)
**Source:** Federal Statistical Office, Deutsche Bundesbank, mortgage interest rates between 2015 and 2026 as at March 1, June 1 and September 1 respectively. According to the sources, the levels here did not exceed 4 %.

## Interest rate expectations

Base interest rates (in %)

| | As of May 2026 | Aug. 2026 | Nov. 2026 | May 2027 |
|---|---|---|---|---|
| ESTR* | 1.93 | 2.20 | 2.20 | 2.20 |
| 5Y SWAP | 2.67 | 2.70 | 2.60 | 2.50 |
| 10Y SWAP | 2.91 | 2.95 | 2.90 | 2.85 |

*** Euro short-term rate**
**Source:** Julius Baer Research

The forecasts made by Julius Baer regarding the future development of underlying assets, interest rates, prices and foreign exchange markets are subject to uncertainties in the current market environment.

# Residential property market in the top 7 cities

As of the end of the first quarter of 2026, signs of recovery continue to take hold in the German residential real estate market. At the same time, given the changing geopolitical landscape, it remains to be seen to what extent the resulting uncertainties will once again impact the market environment.

## The housing market continues to stabilize

In the first quarter of 2026, prices in the residential segment appear to be stabilizing. No further declines are recorded in the top 7 cities, which supports the theory that the consolidation and price-finding phase has come to an end. Slight upward trends are observed in some cases, but stabilization also characterizes the market. The sentiment regarding the residential segment - as measured by the real estate climate and compared to other real estate segments - remains the most positive among experts.

## Rental housing market remains the driving force

The rental housing market continued to play a central role within the German residential real estate market in the first quarter of 2026. No noticeable easing of market conditions has been observed so far, as the available supply continues to lag behind the persistently high level of demand. Consequently, the tight market conditions remain pronounced, particularly in sought-after urban housing markets. A significant expansion of supply is not foreseeable given the continued subdued level of new construction activity, especially as high construction costs, regulatory uncertainties, and limited land availability persist. At the same time, the increased uncertainty regarding inflation and interest rates resulting from geopolitical tensions is likely to further encourage a shift toward the rental segment and maintain pressure on demand.

**Classification of locations**

The RIWIS locations are divided into 4 classes by bulwiengesa GmbH according to their functional importance for the international, national, regional or local real estate market.

**A-Cities**

Most important German centers with national and in some cases international significance. Large, functional markets in all segments. The A-cities are named in the following report »Top 7 cities«.

## Key figures

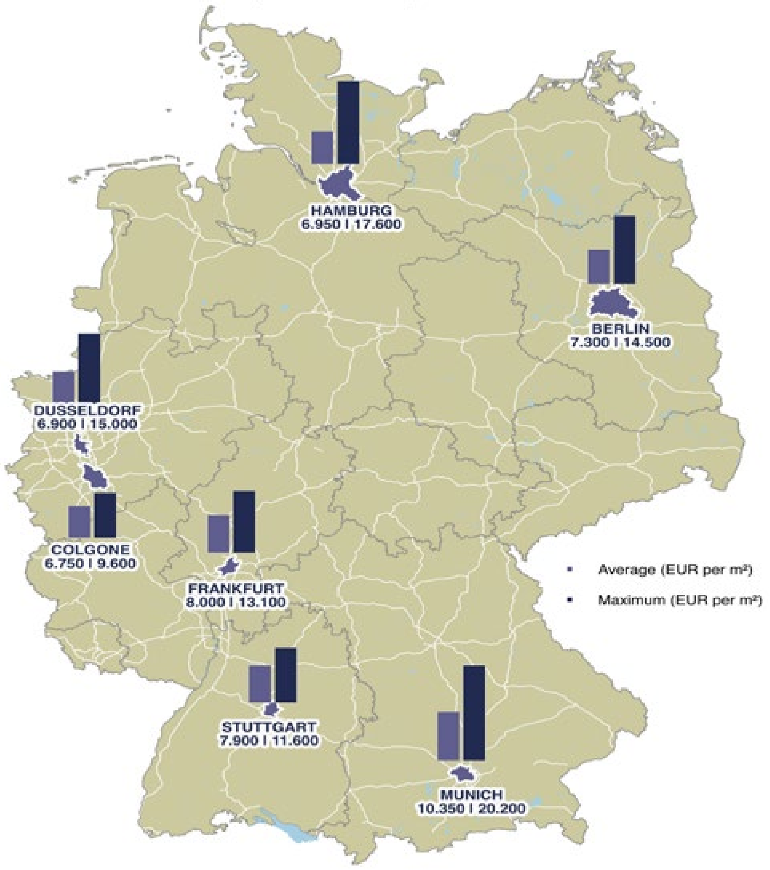
| | |
|---|---|
| Condominiums: Price development<br>1st quarter 2025 – 1st quarter 2026 | 0.7 % |
| Previous year´s value | 1.70 % |
| Owner-occupied apartments: Average listing period<br>In days, 1st quarter 2026 | 48 |
| Previous year´s value | 50 |
| Single-family homes: Price development[1]<br>2024 – 2025 | 0.5 % |
| Previous year´s value | -1.9 % |
| Single-family homes: Average listing period<br>In days, 1st quarter 2026 | 39 |
| Previous year´s value | 45 |

[1] Only annual values available for single-family homes

**Source:** bulwiengesa

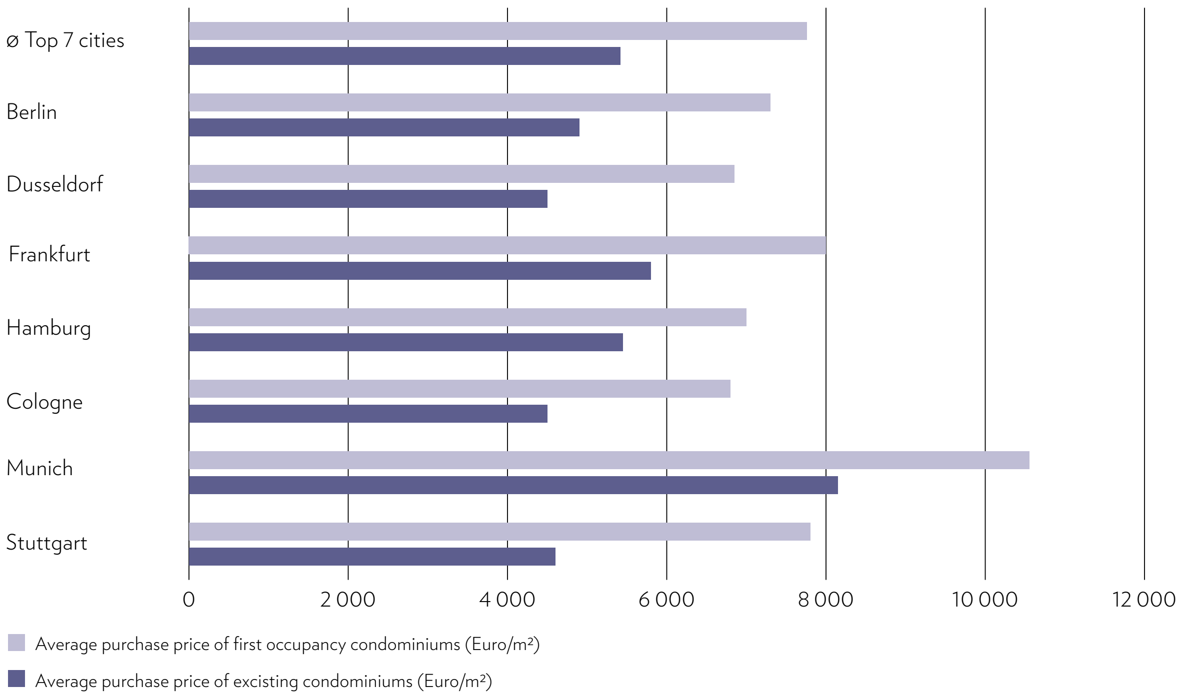
# Price level for condominiums 2025

Annual values




# Price level for first occupancy and existing condominiums

Q1/2026




**Source:** bulwiengesa

### Slight increases in purchase prices

Purchase prices for condominiums in the top 7 cities are generally showing a slight upward trend. Berlin, Düsseldorf, Hamburg, Cologne, and Munich recorded slight increases in the first quarter of 2026 compared to the previous quarter (Q4/2025). Frankfurt remains stable, while Stuttgart saw a slight decline. Viewed positively, this supports the theory that the market has bottomed out, even though there were no significant slumps in retrospect. Rather, this should be understood as price adjustment due to changed financing conditions. Among Germany's top locations, Munich once again leads the pack with an average of 10,550 euros/m² for new construction and 8,150 euros/m² for existing stock, followed by Frankfurt am Main, Stuttgart, and Berlin.

### Price forecasts remain optimistic

Compared to the previous quarter, price trends in the existing portfolio segment show a slight overall increase, similar to the new-build segment. Here, too, there are signs that the market has bottomed out to some extent, although energy-efficiency features may continue to influence prices. Nevertheless, the existing housing stock segment certainly holds potential. Analyses of the Appraisal Committee's data on sales transactions, for example, showed more pronounced recovery trends in the existing housing stock than in new construction in Munich, which opens up opportunities particularly for price-conscious buyers. Forecasts anticipate slight price increases in the coming years. Rising prices are also expected in the new construction segment, although the projected growth rates are likely to remain below the pace of rent increases. This once again highlights that the rental housing market is currently setting the pace.

### Building permits show positive trends

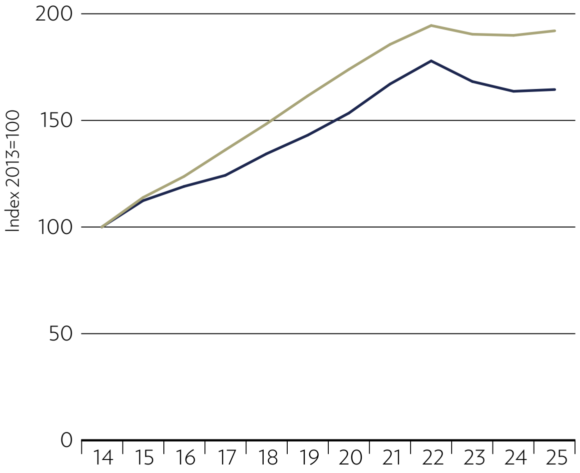
Construction activity remains an important leading indicator for the residential market. While completions are once again on the decline, the approximately 11 % year-over-year increase in building permits is a positive development. This should be viewed as a fundamentally encouraging sign for the housing market, even though permits do not immediately translate into completions and geopolitical and interest rate uncertainties may continue to weigh on implementation.

**Current environment for upmarket residential property**

Forecasts predict a positive trend through 2029, including in the luxury residential segment. For the new-construction segment, growth of 10 to 17 % is expected in the upper market segment, depending on the city. Frankfurt am Main stands out as particularly strong in this regard. With figures of around 17 %, the city on the Main clearly sets itself apart from the other top 7 cities. Munich follows at a noticeable distance, with figures of around 14 % in each case. Regardless, the Bavarian capital remains the most expensive market, continuing to average around 20,200 euros per square meter in prime locations.

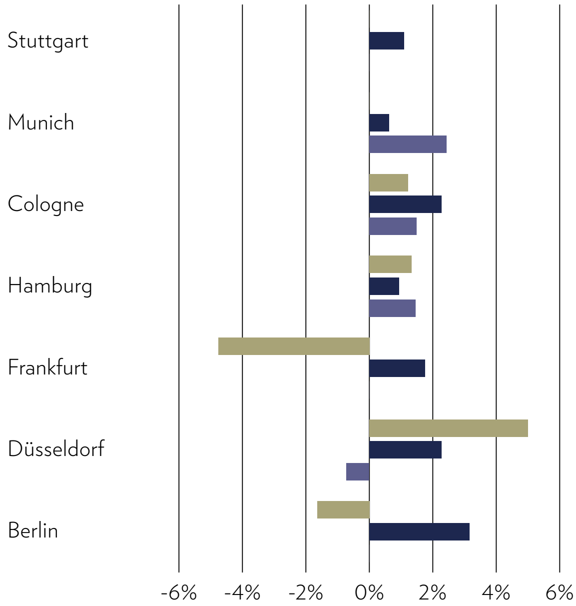
## Development of purchase prices: condominiums and single-family homes

average of the top 7 cities




**Source:** bulwiengesa

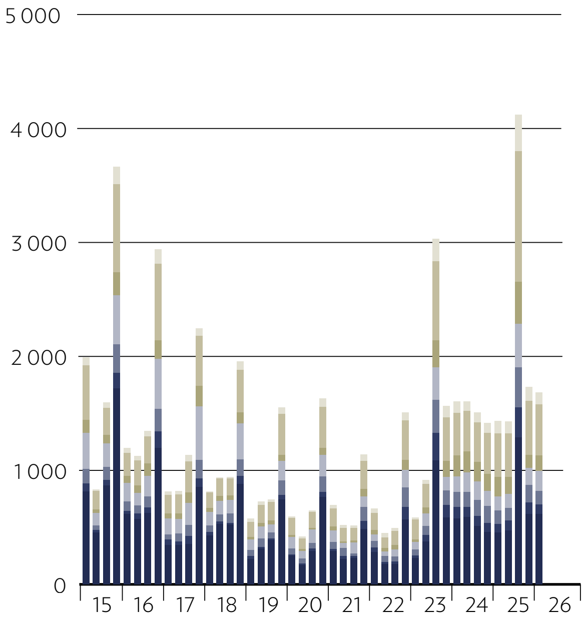
## Price trends in the top 7 cities (Q1/2026)




**Source:** bulwiengesa

## Interest rates

Number of advertised condominiums in the top 7 cities, quarterly




**Source:** IS24

### Price expectations 2026

for condominiums in the top 7 cities

| | |
|---|---|
| Berlin<br>Düsseldorf<br>Hamburg<br>Cologne | Frankfurt<br>Munich<br>Stuttgart |

| Price decline: | Stability: | Moderate price increase: | Price increase: | Significant price increase: |
|---|---|---|---|---|
| < -1 % | -1 % – 1 % | 1 % – 2.5 % | 2.5 % – 3.5 % | > 3.5 % |

# Investment properties

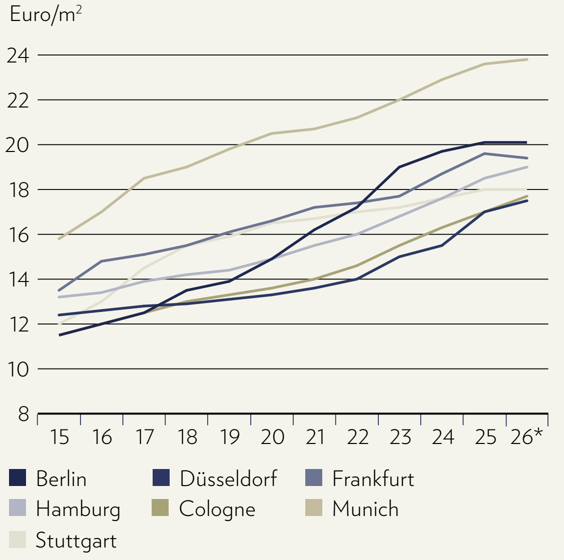
## The residential investment market is expected to show signs of recovery in 2026, particularly in connection with rising transaction volumes. This is in line with market participants' positive outlook, despite yields remaining flat.

## Multi-family homes

### Continued positive trend in the rental housing market

Although rental growth in the first quarter of 2026 has slowed or temporarily stabilized in some cities compared to the final quarter of 2025 (Berlin, Frankfurt am Main, Düsseldorf, Munich), this represents merely a snapshot that does not call into question the underlying upward trend. Over the course of the year, rents in all cities continue to show a positive trend. In 2025, rent growth compared to 2024 ranged from 2.0 % in Berlin to 9.6 % in Düsseldorf. Hamburg (5.1 %), Frankfurt am Main (4.8 %), and Cologne (4.3 %) also recorded significant increases. In the existing housing stock segment as well, the capital of North Rhine-Westphalia stands out with approximately 6.2 %. Frankfurt am Main (4.4 %) and Cologne (3.7 %) follow at a considerable distance. Munich, as the most expensive market, also recorded

Average rent for first occupancy




**Source:** bulwiengesa, *Q1

**Housing market indicators top 7 cities**

| | Berlin | Düsseldorf | Hamburg | Frankfurt | Cologne | Munich | Stuttgart | Top 7 cities |
|---|---|---|---|---|---|---|---|---|
| Average rent | 20.1 | 17 | 18.5 | 19.6 | 17 | 23.6 | 18 | **19.7** |
| Multiplier Average multi-family house | 24.0 | 21.0 | 24.5 | 24.0 | 21.5 | 27.0 | 23.0 | **24.0** |
| Household forecast until 2040 | 3.6 % | 6.2 % | 4.6 % | 6.2 % | 6.7 % | 13.6 % | 6.1 % | **5.3 %** |
| Completions /1000 inhabitants 2024 | 4.0 | 2.9 | 4.2 | 4.6 | 1.5 | 3.6 | 1.5 | |
| ø last 10 years | 3.7 | 3.0 | 4.3 | 4.5 | 2.3 | 4.3 | 2.1 | **3.8** |
| Permits /1000 inhabitants 2024 | 2.3 | 3.8 | 2.2 | 2.7 | 2.4 | 4.3 | 1.1 | |
| ø last 10 years | 4.8 | 3.9 | 4.7 | 5.0 | 2.7 | 5.5 | 1.9 | **4.2** |

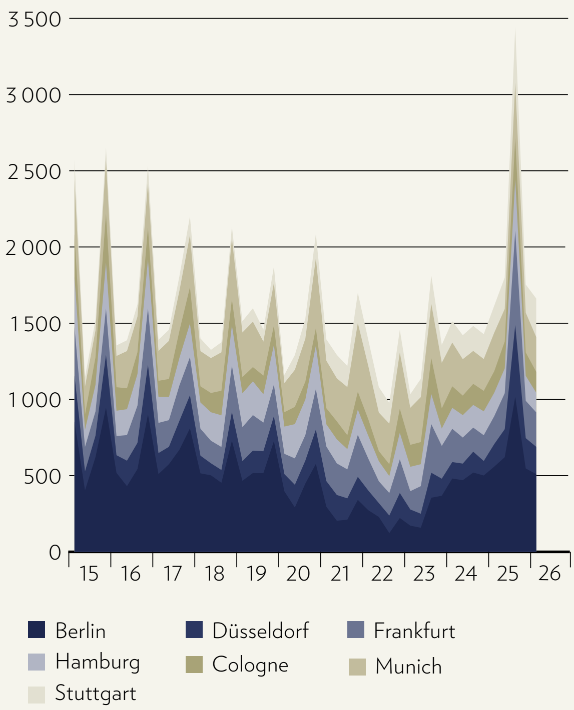
**Source:** bulwiengesa, State Statistical Offices, as of Q1 2026 growth once again. This growth stood at 3.1 % in the new-build segment and 2.0 % in the existing housing stock. Overall, no relief is forecast for the rental housing market, which is attributable on the one hand to subdued construction activity and on the other to broader economic conditions. Economic uncertainty, in particular, continues to drive potential buyers toward the rental housing market, as purchase decisions are postponed or abandoned altogether. Accordingly, forecasts through 2029 point to further rent increases: In the new-build segment, depending on the city, rent increases of between 13.1 % (Hamburg) and 16.1 % (Frankfurt am Main and Munich) are expected, while in the existing housing stock, increases of between 11.8 % (Berlin) and 16.5 % (Munich) are anticipated.

### Structural tailwinds from housing shortages are positive for the residential segment

No major changes were observed in the German residential real estate market in the first quarter of 2026. The stabilization trends and slight upward movements in purchase prices are viewed positively. Even though rent trends in the first quarter of 2026 can be classified as relatively stable compared to the previous quarter, the rental market, with its significant growth, continues to set the pace. Rents have once again risen noticeably year-over-year from 2024 to 2025. The overall economic conditions are having a particular impact here. Renewed geopolitical uncertainties suggest rising inflation and interest rate risks. Even though such a sharp spike as seen three or four years ago is not currently expected, the situation is nevertheless causing uncertainty on the demand side. The consequences are well known: prospective buyers are postponing their purchase decisions and are additionally entering the rental market. The fact that completion figures were once again below the previous year's level further exacerbates the situation. On the other hand, the rise in permit approvals should be viewed as a positive signal. However, market effects from this are more likely to be felt in the medium to long term. Market experts nevertheless view the residential segment most positively compared to other asset classes, which is likely due primarily to the structural tailwind of scarcity.

### Supply development

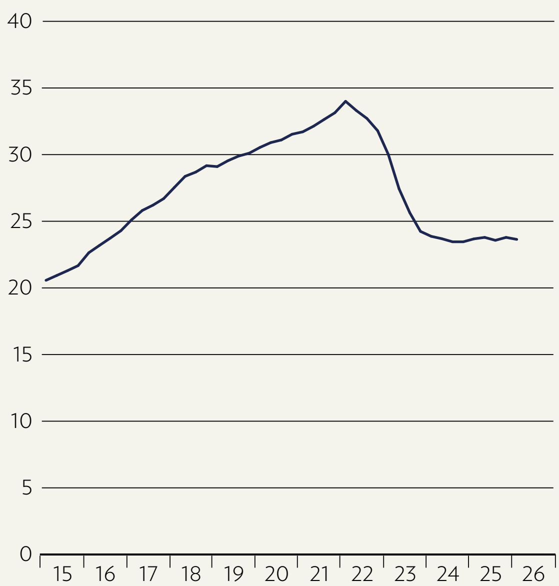
Number of advertised rental apartments per quarter in the top 7 cities




**Source:** IS24

### Multiplier multi-family homes

average




**Source:** bulwiengesa

## Office real estate market

The first quarter of 2026 saw divergent trends in the office real estate market. While Munich, the capital of Bavaria, recorded its strongest sales performance at the start of the year since 2022, with prime rents approaching the Euro 60.00/m² mark, Frankfurt am Main experienced its weakest start to the year in terms of sales since the financial crisis. Furthermore, uncertainties in the office real estate market have been exacerbated by the war in the Middle East. Rising energy prices, increased inflation, and subdued economic growth are once again leading to growing uncertainty among companies regarding demand for space, and banks are being more selective in their lending.

In the first quarter of 2026, the top 7 cities saw an influx of new retail space totaling approximately 141,000 m², which is exactly in line with the previous year's level. The largest volume of space, at 67,000 m², was in the capital city of Berlin, followed by Hamburg and Munich with approximately 48,000 and 22,000 m², respectively. The current construction pipeline for the top 7 cities thus suggests a further decline in completion figures for 2026.

With an average vacancy rate of 8.7 %, the top 7 cities have seen an increase of about 90 basis points compared to the previous year. The sharpest increase was recorded in Düsseldorf, the capital of North Rhine-Westphalia, which rose by 140 basis points to 11.8 %, followed by Berlin with a rise of 130 basis points to 8.8 % and Hamburg with a rise of 110 basis points to 6.7 %. In contrast, thanks to strong sales performance, the rise in vacancy rates in the Bavarian capital, Munich, remained at a relatively moderate level, increasing by 30 basis points to 8.1 %. As is traditional, Frankfurt continues to have the highest vacancy rate at 12.5 %, while Cologne has the lowest at 6.2 %.

Demand for space in the top 7 cities showed a very mixed picture in Q1. Compared to the same quarter last year, Berlin and Munich recorded a significant increase in transaction volume of 39.4 % to 145,000 m² and 29 % to 142,000 m², respectively. This marked the Bavarian capital's best quarterly result since early 2022. This is primarily attributable to three major deals, including the lease of 21,300 m² GFA to the energy company E.ON on Landsberger Straße, the start of construction by software developer Apple for its own use of 30,000 m² GFA on Seidlstraße, and the pre-lease of 21,500 m² GFA to Jetbrains at Tucherpark. While volume in Düsseldorf remained stable at 36,500 m² in the first quarter, the remaining A-markets suffered significant declines: Cologne by -29.5 % to 43,000 m², Hamburg by -18.6 % to 96,000 m², and Stuttgart by -11.1 % to 32,000 m². Frankfurt am Main, with a 70 % decline in take-up to 58,400 m², not only recorded the sharpest year-over-year decline but also started the new year with the lowest take-up figures since the financial crisis.

In the top 7 cities, the weighted average prime rent stood at Euro 44.00/m², representing a 5.0 % increase over the previous year. Compared to Q4 2025, however, this rose by only 0.7 % on average. While prime rents remained stable in most A-markets, Stuttgart and Munich recorded increases of

**Office market figures top 7 cities**

| | Berlin | Düsseldorf | Frankfurt | Munich | Hamburg | Cologne | Stuttgart | Top 7 cities |
|---|---|---|---|---|---|---|---|---|
| Stock[1] | 21.9 | 7.8 | 10.1 | 14.8 | 14.4 | 8.0 | 8.3 | **85.3** |
| Vacancy rate[2] | 8.8 | 11.8 | 12.5 | 8.1 | 6.4 | 6.2 | 6.2 | **ø 8.7** |
| Prime rent[3] | 46.00 | 44.00 | 53.00 | 59.50 | 37.00 | 33.00 | 35.50 | **44.00** |
| NIY central location[4] | 4.4 | 4.7 | 4.6 | 4.3 | 4.5 | 4.5 | 4.6 | **4.5** |

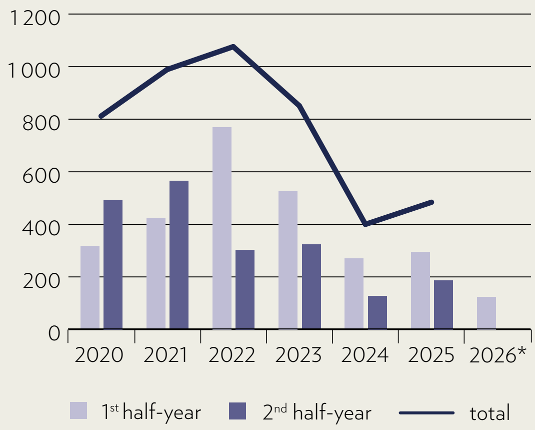
[1] m² MF-GIF in million
[2] in percent
[3] Euro/m² MF-GIF/month
[4] Net initial yield in %

**Source:** bulwiengesa, as of Q1 2026

1.4 % and 2.6 %, respectively, to Euro 35.50/m² and Euro 59.50/m². In Munich, the momentum in prime rents is attributable to high-priced transactions in the city center. Prime yields for office properties have largely stabilized in the wake of selective lending, with only isolated instances of slight increases. Net initial yields in the top 7 cities remain at an average of 4.5 %. Munich remains the most expensive investment location with a net initial yield of 4.3 %, closely followed by Berlin at 4.4 %. The remaining top 7 cities range between 4.5 % and 4.7 %. However, yield compression is not expected by 2026.

Investment volume in the top 7 cities

in million euros




**Source:** bulwiengesa, *Q1

## The market for light industrial real estate

The light industrial (LI) property type has become firmly established in Germany's commercial real estate markets and is valued by investors for its high reversibility of use and suitability for third-party use. Light industrial properties comprise two categories: Business parks offer a complex of halls for light manufacturing and crafts with a variable proportion of office space. Business courtyards are a small-scale special form of business parks and are characterized by scalable, modular space for small companies and craft businesses. Light manufacturing properties comprise hall properties for light manufacturing purposes with a moderate proportion of office space. All categories are characterized by a high degree of flexibility. The market analyses consider the logistics and industrial regions of the top 7 cities.

### Investment market

The investment market got off to a slow start in 2026. In the top 7 locations, a transaction volume of approximately Euro 124 million was recorded in the first quarter, down from Euro 294 million in the same period of the previous year. The top 7 locations thus played only a minor role, while deals were increasingly concluded outside these markets. At the same time, the structural market conditions remain stable despite the economic climate, as reflected in steady yield levels. Against this backdrop, a pickup in transaction activity appears possible as the year progresses.

**Light industrial indicators top 7 cities**

| | Berlin | Düsseldorf | Hamburg | Frankfurt | Cologne | Munich | Stuttgart | Top 7 cities |
|---|---|---|---|---|---|---|---|---|
| New space added in thousands of m² | 31 | 22 | 7 | 2 | 6 | 0 | 16 | **84** |
| Change compared to H2/24 | 138 % | -73 % | Q1/25: 0 | -92 % | Q1/25: 0 | Q1/25: 0 | +78 % | **-34 %** |
| Space take-up in thousands of m² | 56 | 29 | 3 | 43 | 19 | 12 | 42 | **204** |
| Change compared to H2/24 | +133 % | -47 % | -97 % | +291 % | +12 % | +20 % | +600 % | **-5 %** |
| Prime Rent in EUR/m² | 12.60 | 10.60 | 10.70 | 10.50 | 9.80 | 13.20 | 9.80 | **11.00** |
| Change compared to H2/24 | +2 % | +3 % | +1 % | +1 % | +1 % | +1 % | +1 % | **+1 %** |
| Net initial yield (prime) in % | 5.3 % | 5.8 % | 5.5 % | 5.8 % | 5.7 % | 4.7 % | 4.8 % | **5.3 %** |
| Change compared to H2/24 | +-0 | +-0 | +-0 | +-0 | +-0 | +-0 | +-0 | **+-0** |

**Source:** bulwiengesa, as of Q1 2026

### Leasing market

Space take-up in the top 7 locations stood at approximately 204,000 m² in the first quarter of 2026, slightly below the previous year's level (-5 % compared to Q1 2025). Despite some dynamic developments at the individual market level, economic uncertainty continues to dampen demand for space, particularly for owner-occupied production properties, while business parks, by contrast, recorded rising space take-up. Additionally, the ongoing scarcity of available space in some central locations is limiting market activity. Rent trends remained stable, with moderate increases of around 1% on average across the top 7 markets. In this environment, light industrial properties continue to benefit from their high flexibility and broad versatility.

### Construction activity

In the top 7 regions, approximately 84,000 m² were completed in the first quarter, representing a 34 % decline compared to the same period last year. In addition to economic factors, the ongoing shortage of space is limiting construction activity. Nevertheless, investment in modern space continues. The large number of projects currently under construction suggests that new supply by mid-year could reach a level slightly above that of the previous year.

### Outlook

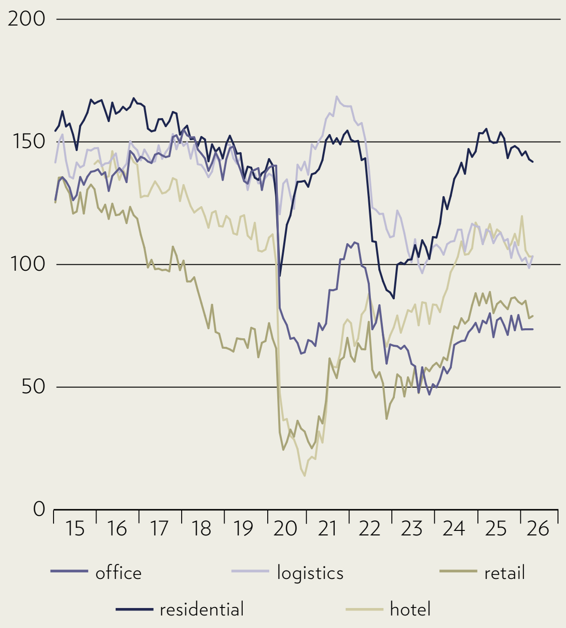
Following a mixed first quarter, the light industrial segment continues to be affected by geopolitical uncertainties and rising energy prices. In particular, the conflict in the Middle East is once again heightening uncertainty in the broader economic environment, thereby also impacting real estate markets. At the same time, the segment remains resilient due to its high flexibility in terms of space. Against this backdrop, a stable to moderately positive market trend appears possible for the remainder of the year.

## Deutsche Hypo Real Estate Climate

In March 2026, the real estate climate shows a slight recovery, rising by 0.7 % to 91.2 points, primarily due to improved earnings expectations, while the propensity to invest – and certain property types in particular – remain under pressure. The picture varies across the individual segments: Residential real estate remains by far the strongest segment at 141.9 points, despite a slight decline of 0.7 %. Logistics real estate shows the most dynamic development, rising significantly by 4.9 % to 103.4 points, thereby climbing back above the 100-point mark. Hotel real estate is performing stably and remains virtually unchanged at 103.2 points (−0.1 %). The retail sector is recovering slightly, improving by 1.2 % to 79.0 points, but remains at a comparatively low level. Office real estate remains unchanged at 73.6 points and thus continues to be the weakest segment, underscoring the structural challenges in this sector.

### Deutsche Hypo Property Climate Index by segment

Index value up to March 2026




**Source:** Deutsche Hypo Property Climate Index

Explanation Index/base: 100=neutral, 200=maximum positive expectation, 0=maximum negative, monthly survey of around 1200 market players from the real estate sector

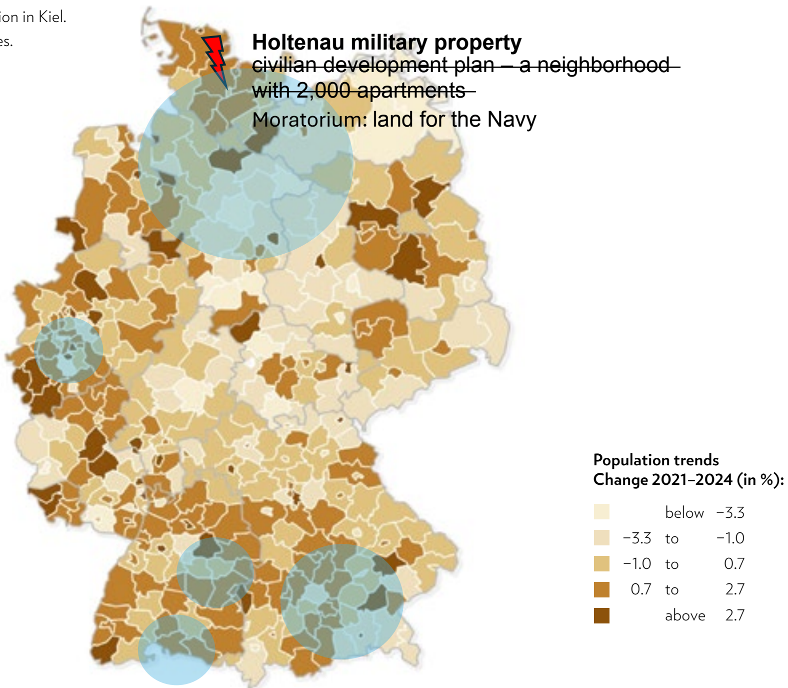
# In Focus – Defence

## From the sidelines to the center of attention: the renaissance of defence

### Background

About 15 years ago, then-Defense Minister de Maizière announced, among other things, that 31 Bundeswehr bases across the country were to be closed. Since 2022 – and the so-called "turning point" – along with the further increase in geopolitical risks and a weakened transatlantic alliance, the announced closure of these bases has become obsolete. At the end of 2025, the Ministry of Defense even announced that the transfer of Bundeswehr properties – which were actually intended for civilian use – had been halted. For example, the city of Kiel will return the site of the former naval air wing in Holtenau to the Bundeswehr[1]. The city's plans had envisioned a new neighborhood there, including approximately 2,200 apartments.
As part of the realignment of security policy, the Bundeswehr will have just under Euro 82.7 billion at its disposal in the 2026 federal budget. In addition, Euro 25.5 billion will come from the Special Fund for the Bundeswehr (see Federal Ministry of Finance, July 30, 2025). By 2030, defense spending is to be increased to 3.5 % of gross domestic product (the NATO target) (see Federal Ministry of Defense, June 25, 2025). According to a study by McKinsey & Company (2026), European NATO member states will thus reach defense spending of around Euro 800 billion by 2030. On the one hand, the funds allocated have an impact on the economy (including increased demand for defense equipment and research into new technologies) – on the other hand, they trigger further effects. The real estate market stands to benefit from this. The following section will focus on this and examine the potential

1 BMVG (April 15, 2026): Bundeswehr expansion in Kiel. Federal government and city agree on guidelines.




**Sources:** Original presentation and research by bulwiengesa based on tagesschau (October 28, 2025): What the Bundeswehr now intends to keep after all; Impact of the real estate moratorium (selection); light blue = military clusters (selection) implications for the residential, industrial, and office asset classes.

### Residential

The special fund and the additional billions of euros that will be made available to the Bundeswehr in the coming years will be allocated not only to the procurement of equipment but also to personnel. This also has an indirect impact on the residential segment.
Overall, the Ministry of Defense plans to have 260,000 active-duty soldiers in the Bundeswehr by 2035 – currently, there are around 170,000 soldiers (including temporary personnel). According to estimates, this will require the Bundeswehr to add tens of thousands of new beds, making it necessary to build additional housing (and modernize existing facilities). This immense number is to be achieved, among other things, through the use of modular building elements. In the planning and construction of these facilities, the involvement of the private sector will be essential to achieve the necessary construction speed. In addition to new accommodations, the Bundeswehr also needs more storage capacity, service and functional buildings, as well as medical centers and Bundeswehr hospitals.

The expansion of the armed forces is also affecting ongoing civilian planning – including in the housing sector. As a result, land that was released for conversion in the 1990s is being held back for the time being due to a moratorium. Currently, this affects 187 former properties, plus 13 properties that are still in use.
As barracks are expanded, the Bundeswehr is also becoming an economic factor at the respective locations: In addition to influencing purchasing power, it can also have an impact on demand in the housing market.

### Industrial

Government defence programs not only benefit military infrastructure in the narrow sense but can also generate demand for space across the entire value chain. As a result, both logistics and light industrial properties are coming into focus within the industrial asset class – private market participants are already developing this into a new investment sector.

Dual-use properties are of particular significance in the context of Defence Properties. The underlying concept allows for both civilian and military uses,

#### Impact on housing

Overall, the funds made available through the regular federal budget and special funds have only an indirect impact on the traditional housing market.
For example, a moratorium has been placed on military properties, meaning that civilian development projects (including housing) that have already been initiated cannot proceed for the time being. On the other hand, opportunities are emerging for project developers in the vicinity of barracks as members of the Bundeswehr seek housing on the open market. Additionally, construction companies with specialized expertise can benefit from the current situation.
The rapid expansion of the armed forces is creating a high demand for new housing, the construction of which can only be managed with the involvement of the private sector.

#### Industrial overview

**Logistics:** Space for warehousing, order fulfillment, and distribution of goods.

**Light Industrial:** Properties with moderate production density and capacity utilization, as well as a user base dominated by small and medium-sized enterprises; this includes business parks as well as warehouse and production properties.

In this context, “Defence Properties” encompasses both segments and describes properties that serve purposes directly related to defense, security, or technology and integrate both logistics and light industrial space.

thereby creating a bridge between government demand and private-sector investment opportunities. Flexibility is the primary focus of dual-use properties, a characteristic that aligns particularly well with the nature of light-industrial properties. Dual-use properties can therefore often be classified within this segment or are developed from existing multifunctional light industrial structures. Furthermore, this type of defence property is particularly attractive to institutional investors. At the same time, the requirements for these properties are comparatively high; for example, property security, access controls, emergency response plans, and specific construction standards must be met.

Against the backdrop of potentially rising demand from the defense sector – coupled with a limited supply of land – as well as the need to conserve resources, the repurposing of existing industrial sites is also gaining importance. Current examples include the conversion of the Volkswagen plant in Osnabrück by Rheinmetall and the transformation of the Alstom site in Görlitz. Here, the defense contractor KNDS plans to produce various modules for tanks in the future.

## Impact on the industrial sector

In summary, it is evident that rising defence spending is triggering structural changes in the industrial asset class. A government-driven, long-term demand driver is encountering an already tight market, leading to stronger demand for logistics space and, in particular, production-related space.

The concept of Defence Properties allows this development to be systematically categorized: The observed market trends – rising demand in logistics and light industrial sectors, the repurposing of existing sites, and the growing importance of dual-use properties – reflect an emerging sub-segment that combines industrial use, government demand, and investable real estate structures.


**Source:** bulwiengesa; KNDS location in Görlitz

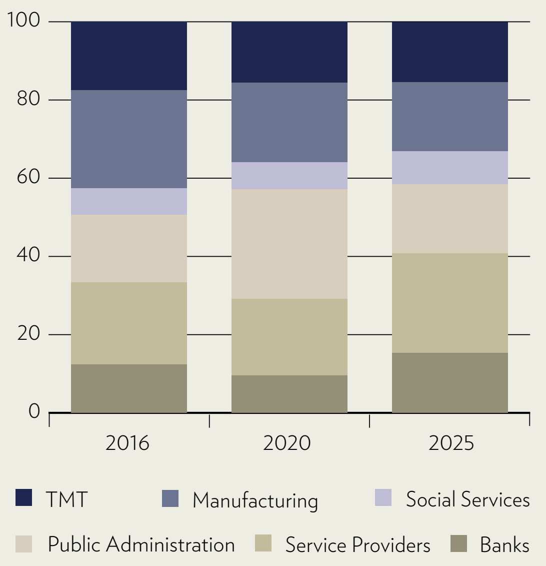
## Office

The interplay of supply and demand in office markets is closely linked to economic trends. A clear example of this is the German capital: a dynamic startup scene and the associated positive growth of the digitals[2] led to a veritable boom in demand in the Berlin office market. This resulted in annual take-ups of over 1 million m² in some years (2017 and 2019) and a vacancy rate of 1.3 % (2019).
As government spending on defence increases, the office market – which is currently in a structural crisis – could benefit from rising demand from the defence sector. On the landlord side, a shift in thinking has taken place in recent years: While tenants from the defence sector were generally avoided before the turn of the decade, this attitude appears to have changed. A look at office space take-up by sector in prime locations shows that currently, little demand can be attributed to the defence sector. Service companies (e.g., consultants) continue to account for a high share of office space take-up – here, only a few companies can be directly attributed to the defence sector. The technology, media, and telecommunications (TMT) sector, including digital companies, also accounts for a fairly constant share.

Nevertheless, defence technology companies (e.g., in the fields of software development and sensor technology) could emerge as a new segment of demand in the office market in the future. So far, however, only isolated instances of such leases have been reported in the press – not least because security considerations often take precedence over public communication of leasing successes in this sector.
In addition to new demand groups emerging in the office market in the future, the location structure of defence companies is also shifting. While industrial production sites tend to be located in rural areas with excellent transportation links, software developers are primarily concentrated in urban areas. With the growing influence of players from the defence sector, the requirements for office real estate are also likely to change: Among other things, there is demand for spaces that meet heightened security standards or feature integrated, smaller laboratory areas.

2 Digitals: These are startups or technology subsidiaries of large corporations that offer nationwide services in new economic sectors.

### Office space take-up in the top 7 cities
by percentage and industry (share)




Data is available starting in 2016
**Source:** bulwiengesa

### Impact on the office sector

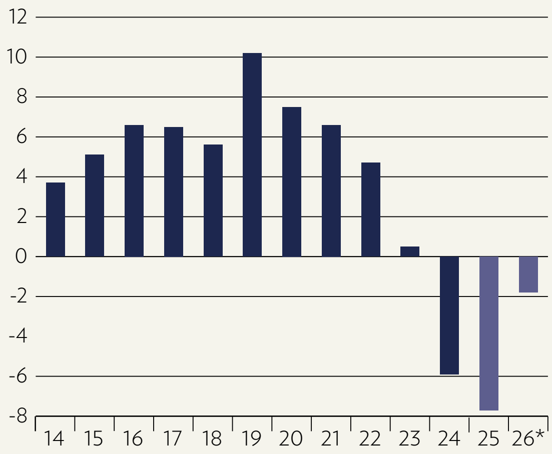
Office real estate markets, which are currently in the midst of a structural crisis, stand to benefit from demand from the defence sector. This is contingent on the properties meeting the relevant security requirements (e.g., access, power supply) as well as offering customized fit-out options. Furthermore, the billions of dollars involved will not only influence real estate demand but also make the modernization and expansion of infrastructure increasingly important: bridges, roads, and railways must be upgraded to accommodate heavy transport, among other things, and critical infrastructure such as data lines and energy infrastructure must be laid and protected. Furthermore, new data centers and customized airfield areas are needed. The defence sector is thus moving out of its niche and into the spotlight, serving as a catalyst for numerous asset classes and markets, as well as the private sector.

# Indirect real estate investments

## Three fund closures in the first quarter of 2026

The rise in yields on German government bonds following the outbreak of the crisis in the Middle East has led to significant price declines in German real estate stocks. Although these losses have since been limited, the overall return since the beginning of the year remains slightly negative. Open-ended German real estate funds faced further net outflows of Euro 1.8 billion in the first quarter of 2026, and three open-ended funds were forced to announce the suspension of redemptions.

Open-ended real estate funds: net inflow of funds (billion euros)




**Source:** BVI, *as of Q1 2026

### Real estate companies with dividend increases

The largest publicly traded real estate company announced a dividend increase to shareholders for the 2025 fiscal year, which, in our view, suggests good visibility regarding future business performance and the German residential real estate market. However, a normalization of the interest rate and inflation environment is also important for the future price trend. We expect yields on 10-year German government bonds to fall back below the 3 % mark within a year.

### Net outflows lead to expected fund closures

The closure of three funds in the first quarter of 2026 came as no surprise, given the net outflows from open-ended real estate funds that have persisted since 2024. Despite the notice periods and minimum holding periods introduced for new investors, the sector has not become significantly more resilient since the fund closures following the global financial crisis. The law provides for a timeframe of up to three years for the suspension of redemptions of fund shares. This long period should, in principle, enable the funds to sell the real estate without pressure and thus limit potential losses for investors. In the best-case scenario, the products can be reopened once market conditions normalize, thereby avoiding an impending liquidation. Additionally, starting April 16, 2026, all open-end investment funds must employ at least two liquidity management tools (LMTs).

In addition to the aforementioned notice periods, combined with the suspension of share redemptions, open-ended real estate funds would thus only need to introduce one additional LMT. In our view, the introduction of so-called “gating” mechanisms or redemption restrictions (i.e., only pro-rata processing of redemptions) could better align the time horizons of open-ended real estate funds—long-term, illiquid real estate investments versus investors’ short-term redemption options. Despite these improved liquidity management options for open-ended funds, we continue to favor the listed real estate equity sector. This sector has once again demonstrated its resilience in the current environment and, following a successful deleveraging process, is already able to pay out higher dividends to investors in some cases. For the fund sector, however, it remains to be seen whether investor confidence in the sector will return, in part due to the introduction of new LMTs.

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### Sources

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