

A woman with short dark hair, wearing a light blue blouse and dark trousers, is sitting on a wide wooden windowsill. She is holding a silver laptop on her lap and looking out of a large window with vertical wooden frames. The window shows a view of a building with a tiled roof. The interior has warm wooden walls and a blurred foreground.

Julius Bär

PROPERTY MARKET REPORT GERMANY

Residential and investment properties in Top 7 cities
along with indirect real estate investments
3rd quarter 2025

Marketing material

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

Julius Bär

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Current market environment

In the first quarter of 2025, the German economy expanded more strongly than expected, growing by 0.4 %. Part of this increase is attributable to advance exports to the US in connection with the tariff issue. The rise in private consumption is also worth highlighting. The order situation and sentiment indicators point to a slight, ongoing economic recovery.

Economic policy reboot brings confidence

The change of government and the special fund decided shortly thereafter have led to a noticeable improvement in sentiment. Both companies and consumers are once again more optimistic about the coming months. The extent to which the additional government investment will also increase production potential and thus long-term growth remains to be seen. However, one thing is clear: the package of measures should be sufficient to provide a short-term economic boost.

Cautious development on the labour market – revival expected in 2026

Despite initial signs of recovery, the labour market remains weak at present. The unemployment rate stood at 6.2 % in May 2025, above the previous year's figure. The number of job vacancies is also declining. However, with the expected economic upturn from 2026 onwards job creation is also likely to pick up speed again.

ECB reaches its target

In June, the European Central Bank lowered its deposit rate again, to 2.0 %. A further interest rate cut in the course of the year appears possible, as inflationary pressure is easing. The monetary policy target corridor has thus almost been reached. However, the yield curve has normalised, as long-term interest rates and mortgage terms have hardly reacted so far.

There has been no major boost to the real estate market to date, although residential property prices have risen slightly again recently.

Key figures at a glance

Forecast 2025

Real GDP growth	0.1%
ø last 10 years	1.2%
Inflation	2.1%
ø last 10 years	1.7%
Unemployment rate	6.3%
ø last 10 years	5.8%
Household growth	0.4%
ø last 10 years	0.3%
New construction rate (residential)	0.5%
ø last 10 years	0.6%

as of June 2025

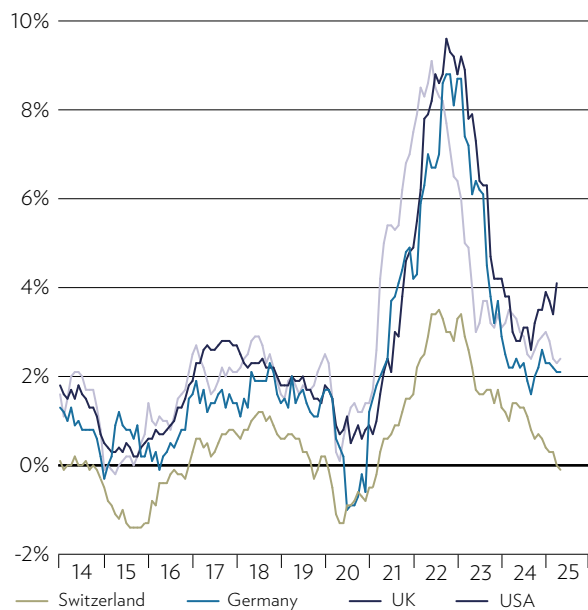
Sources: Julius Baer Research, Federal Employment Agency, Federal Statistical Office (Destatis)

Outlook for 2026: Opportunities with significant risks

The recovery expected for 2026 is subject to global trade policy. The unclear prospects in the negotiations with the US on possible tariff increases pose a significant risk. If no agreement is reached, there is a risk of a noticeable decline in GDP growth, especially for export-dependent industries. This increases uncertainty for companies and makes investment decisions more difficult. An early clarification of transatlantic trade would be of central importance for economic stabilisation.

Inflation

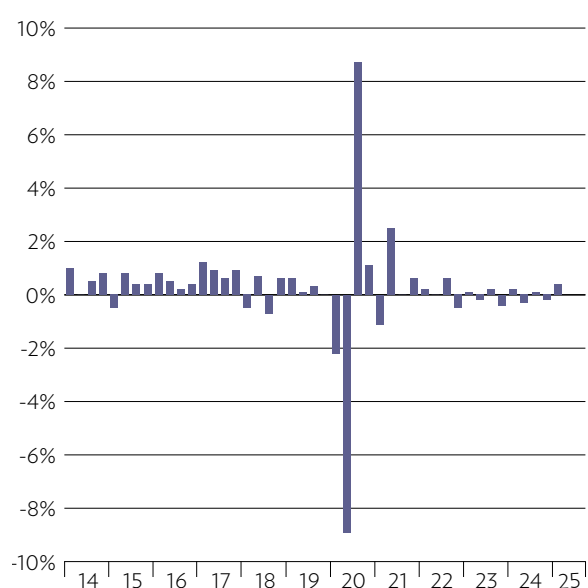
International comparison



As of June 2025 **Source:** OECD

Economic activity

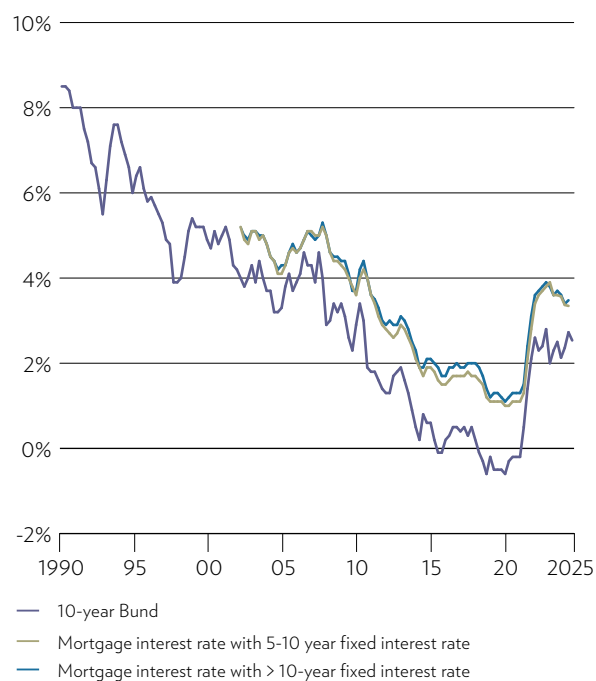
Germany



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: DE000BUZZ015)

Sources: Federal Statistical Office, Deutsche Bundesbank, mortgage interest rates between 2015 and 2025 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 June 2025	Sept. 2025	Dec. 2025	June 2026
ESTR*	1.92	1.42	1.42	1.42
5Y SWAP	2.03	1.87	1.85	1.84
10Y SWAP	2.38	2.25	2.29	2.39

* 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

The positive development of the German residential property market continued in the first quarter of 2025. Following price adjustments in 2022 and 2023 and very subdued market activity, there are increasing signs that the worst is now over, not least due to market participants' acceptance of the new situation.

A market recovery is evident

The development of purchase prices from the previous quarter to the first quarter of 2025 underscores the current stable market phase and confirms once again the assumption that the consolidation and price discovery phase is coming to an end. Looking at the real estate climate, in which experts are asked about current developments on the real estate market, the situation can be described with a healthy realism on the part of market participants as still somewhat sober, but by no means pessimistic. However, there is agreement that no major turnaround is expected for 2025. The wait-and-see phase is therefore continuing, even though there is definitely more activity on the real estate market.

Rental market under pressure: demand exceeds supply

The rental housing market remains under considerable pressure. Demand significantly exceeds supply, particularly in urban centres. This development has been and continues to be exacerbated by subdued demand for owner-occupied property and the shift of potential buyers to the rental market. This can be explained primarily by the fact that financing remains difficult for many prospective buyers. In response to the tense market situation, the newly elected federal government is planning measures such as promoting residential construction and extending the rent cap. These measures are intended to dampen rent growth in tense markets. Criticism of the rent cap has come from investors who fear negative effects on residential construction.

Classification of locations

The RIWIS locations are divided into 4 classes by bulwiengesa AG 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
1st quarter 2024 – 1st quarter 2025

1.7 %

Previous year's value -2.57 %

Owner-occupied apartments: Average listing period

49

In days, 1st quarter 2025

Single-family homes: Price development¹
2023 – 2024

-1.9 %

Previous year's value -6.22 %

Single-family homes: Average listing period

44

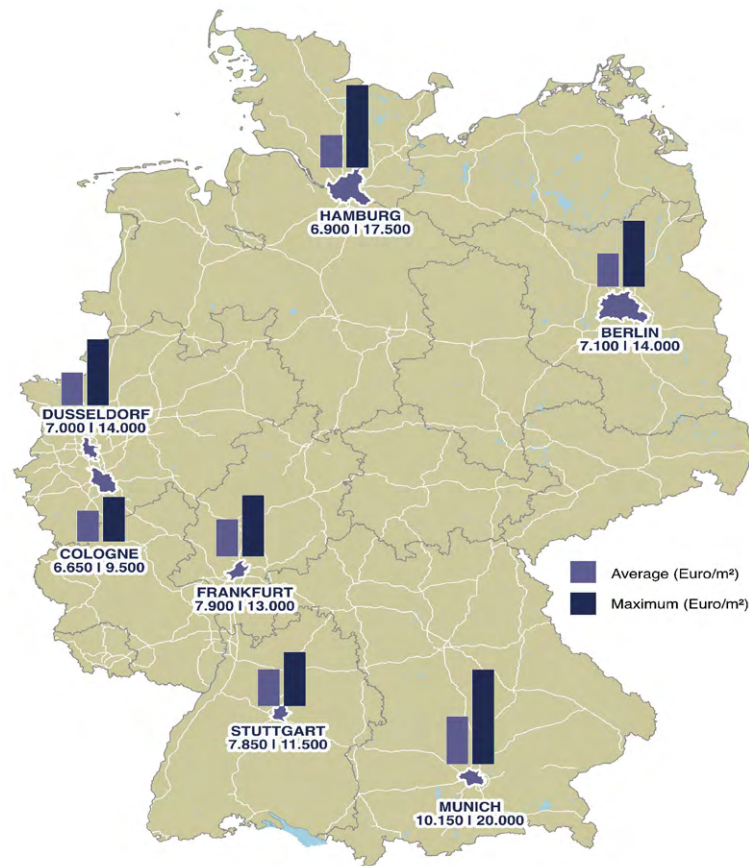
In days, 1st quarter 2025

¹ Only annual values available for single-family homes

Source: bulwiengesa AG

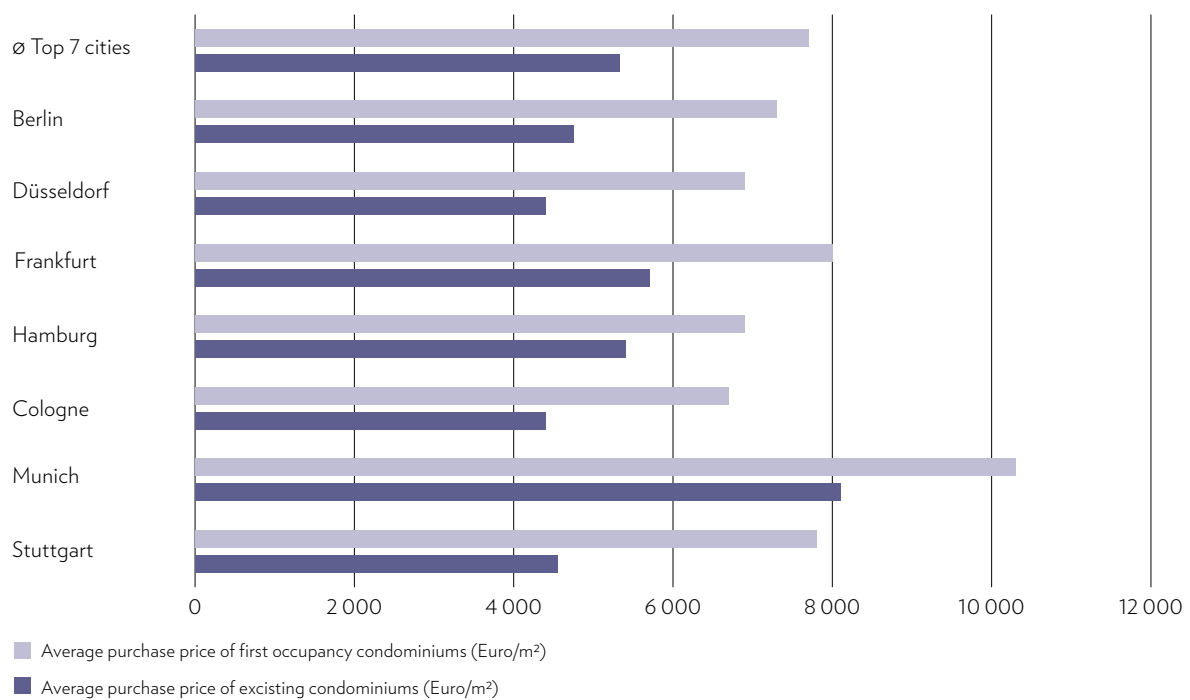
Price level for condominiums 2024

Annual values



Price level for first occupancy and existing condominiums

Q1/2025



Source: bulwiengesa AG



The bottom of the price trend appears to have been reached

Compared with the same quarter last year, higher prices were recorded in all top 7 cities except Düsseldorf. Compared with the first quarter of 2023 and the corresponding quarter of 2024, when declines were recorded in almost all cities, prices are now in some cases even above the level of Q1/2023. These include Berlin and Munich. At EUR 10,300/m² for a new-build owner-occupied apartment, Munich remains the most expensive city in Germany for both new and existing properties (EUR 8,000/m²). The level has remained constant over the last few years at EUR 7,800/m² for new-build properties in Stuttgart.

After prices stabilise, an increase is forecast

Compared to the previous quarter, prices for existing homes have now also stabilised. Over the last two to three years, they have had to undergo more significant price adjustments than new homes due to their individual energy standards. The current 2025 spring forecast assumes that prices for existing homes will continue to stabilise in 2025 and 2026 with the first noticeable increases. For new builds, increases that can no longer be considered stabilisation are already expected for 2025. This trend is also expected to continue in this segment in 2026. The highest growth rates are expected among the top seven cities in Frankfurt am Main, Munich and Stuttgart. This applies to new and

existing properties. In figures, this represents expected increases of 13 to 16 % (in Frankfurt) for new properties and 11 to 12.5 % (in Stuttgart) for existing properties.

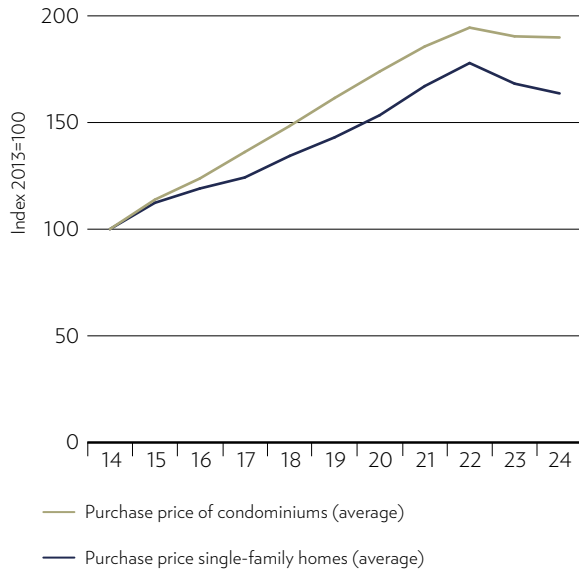
Housing construction is to be effectively boosted

With just under 252,000 residential units completed in 2024, completions were once again lower than in 2023. The significantly lower number of approvals also means that no turnaround is expected for the coming years. Accelerating planning and approval procedures, including a reform of the Building Code, financial incentives and support programmes, or the introduction of non-profit housing are initial ideas that now need to be turned into concepts and implemented in the near future.

Current environment for upmarket residential property

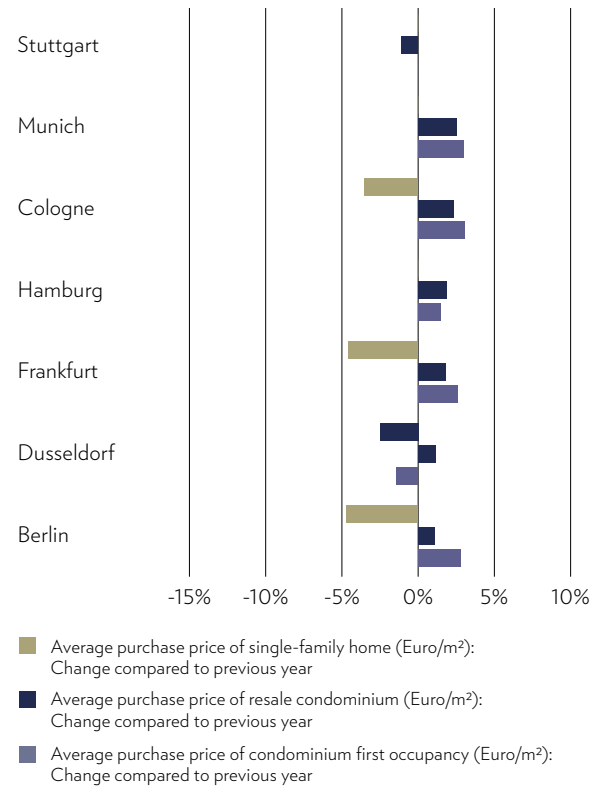
In the high-end residential property market, significant price increases of around 12 % to 19 % are expected in all of the top 7 cities in the coming years. Munich is still the frontrunner at EUR 20,000/m². However, the growth rate, which is forecast to be a remarkable 15% over the next four years, will be exceeded by other major German cities. In addition to Hamburg (around +18 %), Frankfurt am Main stands out with around 19 %. Maximum prices of around EUR 15,500/m² are therefore expected in Frankfurt am Main and around EUR 20,700/m² in Hamburg.

Development of purchase prices: condominiums and single-family homes average of the top 7 cities



Source: bulwiengesa AG

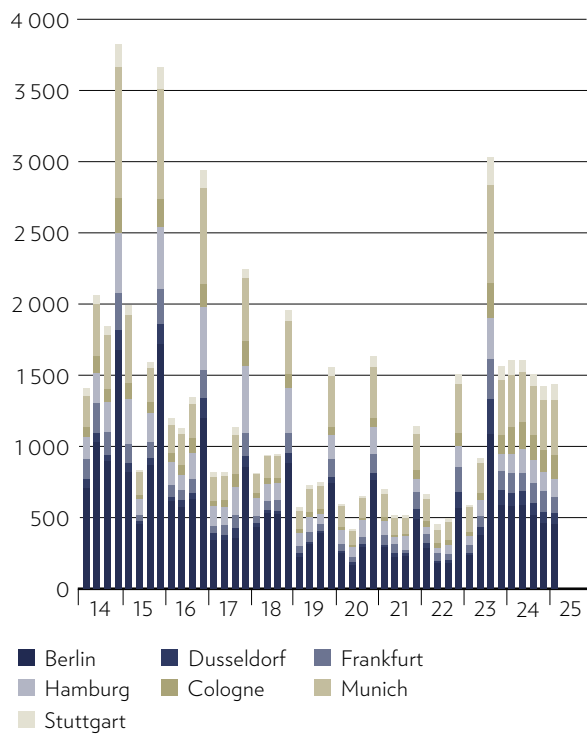
Price trends in the top 7 cities



Source: bulwiengesa AG

Offers: owner-occupied property

Number of advertised condominiums in the top 7 cities, quarterly



Source: IS24

Price expectations 2025

for condominiums in the top 7 cities



↘ Price decline:
< -1 %

→ Stability:
-1 % bis 1 %

↗ Price increase:
> 1 %

Investment properties

Key figures top 7 cities, as of Q1 2025

Ø Residential multiplier*
previous year's figure

23.7
23.9

Net initial yield, office
previous year's figure

4.5 %
4.4 %

Vacancy rate, office space
previous year's figure

7.8 %
5.9 %

The investment market has seen positive developments on both a large and small scale. Following a period of stabilisation, residential investments recorded rises in Q1 2025. In particular, a higher frequency of completed transactions is seen as particularly positive. This makes the residential investment market the asset class with the highest turnover compared to office, logistics and retail.

* These refer to the annual net cold rent.

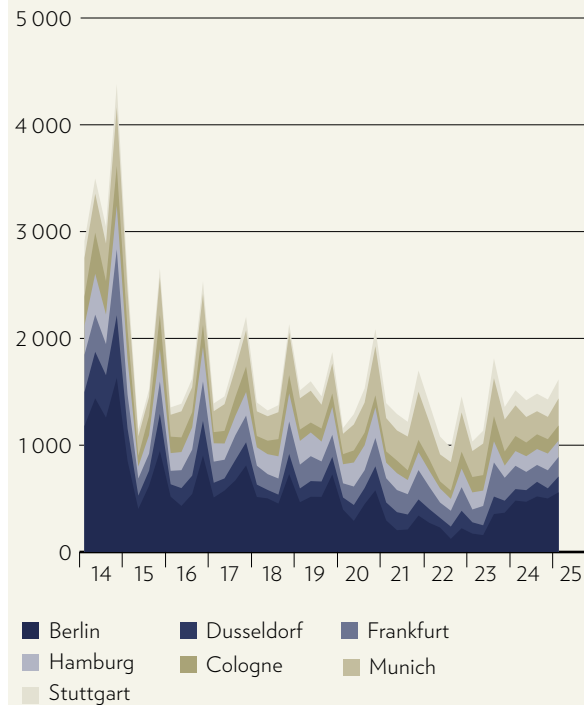
Multi-family homes

Housing shortage fuels further rent increases

The positive rental trend of recent quarters continued in the first quarter of 2025 in all top 7 cities. Rental levels in new builds were up to 3 % (Dusseldorf) higher than in Q4/2024. Stagnation was recorded in Berlin and Stuttgart. For existing apartments, an increase of at least 0.6 % (Stuttgart) to a maximum of 2.3 % (Berlin, Dusseldorf) was recorded. Compared with the same quarter of the previous year (Q1/2024), the positive development in rental levels is even more clear: growth rates of over 8 % (Dusseldorf 8.6 %, Frankfurt am Main 8.2 %) were calculated for new-build apartments. In the existing housing stock, Frankfurt am Main also recorded the highest value at 5.8 %. The current situation on the housing market, with low completion rates that are not expected to improve in the coming years due to low approval rates, is reflected in the forecast. In all major German cities, an increase of up to 20 % in new construction and 23 % in existing properties is expected by 2029.

Supply development

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



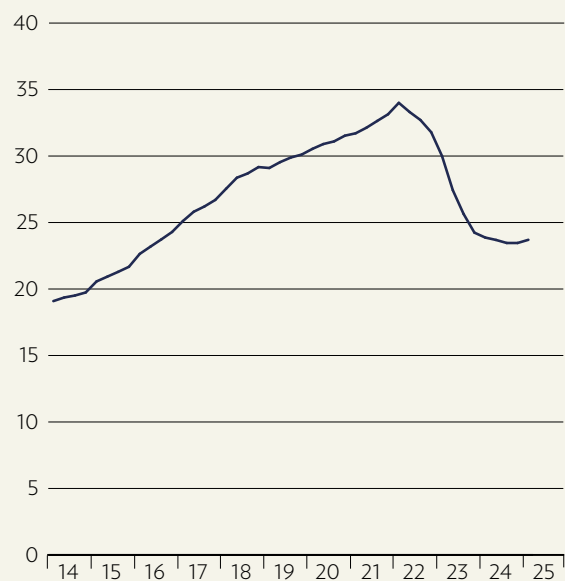
Source: IS24

Cautious recovery on the residential investment market

The positive development of the residential investment market in the first quarter of 2025 points to a continuation of the recovery. Overall, the residential investment market in Germany is on a moderate upward path, supported by stable demand and limited supply. However, the industry continues to call for reliable framework conditions and consistent implementation of the first programmatic ideas of the federal government in order to solve the housing problem in a sustainable manner. The federal government is thus faced with the challenge of finding the right combination of financial incentives, regulatory reforms and innovative construction methods. The coming years will show to what extent these measures are effective in creating the urgently needed housing. It will also be crucial whether the political measures create long-term investment security and noticeably accelerate approval processes. This is the only way to sustainably boost new housing construction.

Multiplier multi-family homes

average



Source: bulwiengesa AG

Office property market in the top 7 cities

In addition to a few large leases, the first quarter was characterised by stagnating prime rents and further increases in vacancy rates. Net initial yields also remained stable.

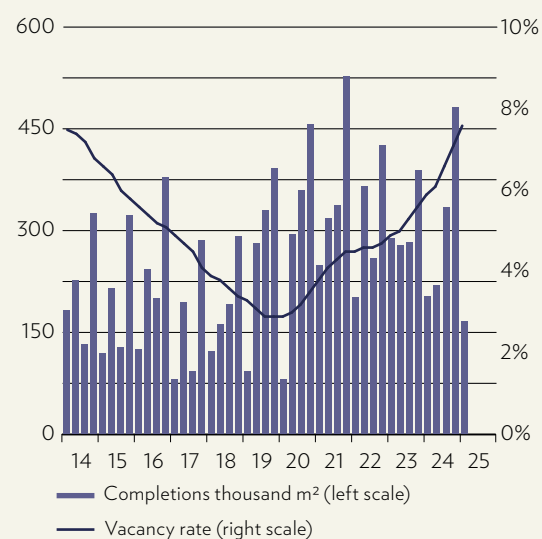
New construction volume in 2025

In the first quarter of 2025, the top seven cities recorded an increase in new construction space of around 162,000 m², which is around 21% below the previous year's level. The largest volume of space, at around 63,000 m², was accounted for by the federal capital Berlin, followed by Dusseldorf and Hamburg with 41,000 m² and 39,000 m² of completed space, respectively. The peak in new construction volume was reached in 2024. Projects that were initiated before the coronavirus pandemic were increasingly completed last year. The current construction pipeline for the top seven cities therefore points to a further decline in completion figures for 2025. In addition to changing user demand and persistently difficult financing conditions, owners are increasingly focusing on their portfolios. This is reflected in the rising share of renovation activity in the total development volume.

Vacancy rates everywhere above healthy fluctuation reserves

At an average of 7.8 %, the top seven markets recorded an increase of 190 basis points compared with Q1 2024. The strongest increase was recorded in the Bavarian capital, with 240 basis points to 7.8 %, which is attributable to an increase in vacancies and completions. The highest vacancy rates in the first quarter of 2025 were once again recorded in Frankfurt and Dusseldorf, at 11.7 % and 10.4 % respectively. Cologne has the lowest vacancy rate at 5.2 %, followed by Hamburg at 5.6 %. This means that all of the top seven locations have vacancy rates that are above a healthy fluctuation reserve (3-5 %). For 2025, a further divergence in market development is expected. While some locations will see rising vacancies due to high completions, others are likely to have peaked and tend towards

Supply situation in the top 7 cities



Source: bulwiengesa AG

stabilisation or even a decline in office space supply. While some locations will see rising vacancy rates due to high completion rates, others are likely to have peaked and will tend towards stabilisation or even a decline in office space supply. Overall, a marginal increase is expected, which will turn into a downward trend in vacancy rates in the following years.

Large-volume leases in Frankfurt and Cologne

The seven largest cities recorded total take-up of around 659,000 m² in the first quarter of 2025. This exceeded the previous year's figure by around 13 %. The increase in take-up is primarily attributable to a significant rise in Frankfurt am Main (+123 %) and Cologne (+118 %). The good take-up result in the Main metropolis is, attributable to the large-volume lease signed by

Commerzbank AG for 73,000 m² in the Central Business Tower. In Cologne, two deals by the Jobcenter – which is consolidating its locations – contributed to the good sales result: the pre-letting of 16,500 m² in the Müngersdorf industrial park on the left bank of the Rhine and the letting of 12,000 m² under construction in the Düxx office development in Deutz on the left bank of the Rhine. Frankfurt leads the way with around 195,000 m², followed by Hamburg and Munich with 118,000 m² and 110,000 m² respectively. While in Hamburg in the first quarter of 2025, leasing under construction of over 13,400 m² to Hamburg Commercial Bank in the Ajour building on Mönckebergstraße contributed to the sales result, while in Munich, a large-volume deal was recorded with the pre-letting of around 33,000 m² to Siemens AG in the Officehome Beat in the Werksviertel district. In Berlin (-28 %), Dusseldorf (-31 %) and Stuttgart (-52 %), however, transaction volumes declined compared with the previous year. A slight upturn in demand is expected for 2025. However, the positive forecast for the number of office employees contrasts with the economic downturn and uncertainties about future space requirements of companies due to remote working. A more accurate assessment of future office space demand will only be possible once the economic recovery leads to a general increase in space demand. In this case, companies will be more inclined to sign long-term lease agreements and adjust their office space accordingly. The future development of demand for office space remains uncertain and will be determined by various factors, including the economic situation, technological developments and new

working models. In addition to US tariffs and other ongoing geopolitical risks, it remains to be seen to what extent the economic stimulus package envisaged in the coalition agreement of the new German federal government will revive the German economy. In addition to the investment offensive and the special fund of EUR 500 billion for climate protection, digitalisation and infrastructure, tax relief measures are intended to stimulate economic recovery. In the short term, caution and flexibility continue to dominate market activity: Many companies prefer to extend existing leases rather than commit to long-term contracts.

Rental growth compared to the previous quarter only in Frankfurt

While prime rents rose year-on-year in all top 7 locations, they remained at the same level as in the previous quarter, with the exception of Frankfurt and Dusseldorf.

While Frankfurt broke through the EUR 50.00 mark in Q1 and recorded rental growth of 5.3 % compared with Q4/2024, the prime rent in Dusseldorf actually fell by 2.4 % and currently stands at EUR 41.00 / sqm. This is primarily attributable to a decline in demand.

In this context, it is important to note that the prices quoted are nominal rents. In view of the increasing supply reserves, incentives such as rent-free periods or subsidies for expansion costs are becoming increasingly important, which has a corresponding impact on effective rents. Such incentives are currently particularly widespread in A cities and can account for up to 20 % of rental costs.

Office market figures top 7 cities

	Berlin	Dusseldorf	Frankfurt	Munich	Hamburg	Cologne	Stuttgart	Top 7 cities
Stock ¹	21.7	7.8	10.1	14.6	14.3	8.0	8.3	84.8
Vacancy rate ²	7.5	10.4	11.7	7.8	5.6	5.2	5.7	ø 7.8
Prime rent ³	45.00	41.00	50.00	54.00	35.80	33.00	34.50	41.9
NIY central location ⁴	4.4	4.6	4.6	4.3	4.5	4.5	4.65	4.5

¹ m² MF-GIF in million

² in percent

³ Euro/m² MF-GIF/month

⁴ Net initial yield in %

Source: bulwiengesa AG, as of Q1 2025

Investment market

There was little change in net initial yields in the first quarter. Since Q3 2024, all signs have pointed to the price adjustment process in the top seven cities coming to an end and yields stabilising across the board. As in the third and fourth quarters, the prime yield for office properties in central locations in the top 7 markets was 4.5 %. Munich remains Germany's most expensive location with a net initial yield of 4.3 %, closely followed by Berlin with 4.4 %. The other top 7 cities are in the range of 4.5 % to 4.6 %. However, no scope for falling yields is expected for 2025 – on average, a further increase in yields of 10 basis points is forecast, followed by stabilisation. A decline in yields is only to be expected if there is a significant improvement in financing conditions and/or a more positive economic environment.

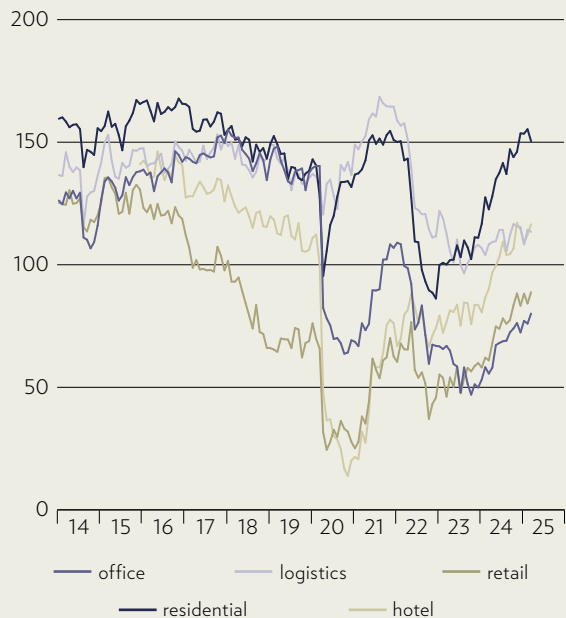
Deutsche Hypo Property Climate Index

At the end of the first quarter, the real estate climate showed a positive development. After a stable situation in the previous month, the real estate climate recorded a slight increase of 2.4 % to 99.8 points in the 207th survey. The main reason for this upward trend is the income climate, which rose by a significant 4.9 %. The investment climate, on the other hand, remained unchanged at 94.8 points. Within the individual asset classes, there was a mixed picture. The retail climate stood out particularly positively with an increase of 5.5 % to 88.8 points, as did the office climate, which rose by 5.3 % to 80.1 points. This meant that the office climate returned to the 80 mark for the first time since August 2022. 88.8 points, and the office climate, which rose by 5.3 % to 80.1 points. This means that the office climate has reached the 80-point mark again for the first time since August 2022. The hotel climate also continued its upward trend, improving by 3.7 % to 116.5 points. On the other

hand, logistics and residential real estate suffered slight declines. The logistics climate fell by 0.8 % to 113.4 points, while the residential climate declined more significantly, falling by 3.2 % to 150.4 points. Despite this decline, residential remains the leading asset class in the overall comparison.

Deutsche Hypo Property Climate Index by segment

Index value up to March 2025



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 - Educational real estate

Investing with social impact

Education is not only an individual human right, but also a key lever for social cohesion, economic innovation and social justice. In this context, educational real estate is increasingly coming into focus. The demand for educational facilities is growing worldwide.

Educational buildings – whether nurseries, schools or universities – form the spatial basis for the transfer of knowledge, skills and social competences. They are key infrastructural factors for a functioning, sustainable society. However, the reality in many places in Germany is sobering. Numerous buildings are outdated, in need of renovation and no longer meet current educational, technical or energy requirements. At the same time, demand is growing: more children need early childhood care, school enrolment numbers are rising, and the number of first-year students is set to increase significantly in the coming years. Added to this is a profound change in the architecture of

education. Traditional classroom corridors with frontal teaching are giving way to modern, flexible learning landscapes with digital teaching methods, open space concepts and integrative forms of use.

The investment package as a political catalyst

A political catalyst for this urgently needed modernisation is the investment package announced by the federal government amounting to EUR 500 billion, which is considered one of the largest infrastructure initiatives of the past decades. The investment package is intended to stimulate the economy and create jobs.

Possible effects of the investment package on educational real estate

	Impact on educational real estate	Opportunities for private investors	Risks for private investors
Renovation wave	Renovation of schools, daycare centres and universities with a focus on building fabric, technology, room quality and energy efficiency	Participation in PPP or rental models, high demand for professional construction and operating partners	Delays due to limited planning resources, lengthy approvals, bureaucracy
Digitalisation	Expansion of digital infrastructure (IT networks, learning platforms, media technology)	Opportunity to participate in comprehensive solutions: construction + digital equipment from a single source	Risk that digitisation measures will be implemented by the federal states/local authorities on their own initiative
New construction programmes	More daycare centres (especially nurseries), schools and university buildings in growing regions	Investors can conclude long-term rental agreements with public or non-profit organisations	Construction cost increases and a shortage of skilled workers in the construction industry could delay projects or make them more expensive, prolonged lease negotiations
Sustainability & ESG	Stricter requirements for energy efficiency, CO ₂ reduction, climate-friendly construction	ESG-compliant educational buildings are in demand for the long term and receive subsidies	Sustainable construction can be more expensive initially, but pays off over long periods of time
Private-law rental models	Private investors and developers can use their expertise and efficient standards to accelerate the expansion of the educational infrastructure	More freedom and flexibility; especially in the planning phase	Educational real estate are highly use-specific. Repurposing (e.g. after the expiry of the contract) is possible with high conversion costs.
Public-private partnerships (PPP)	Municipalities/states and universities are increasingly turning to leasing educational real estate or operator model	Long-term, government-backed lease agreements (e.g. 20–30 years) with very high credit ratings, stable cash flows	PPP projects require complex tendering procedures and often high initial investments
Campus and neighbourhood developments	Universities, childcare centres and school campus projects are gaining importance, often as part of larger urban development projects.	Investors can integrate educational real estate in mixed-use neighbourhoods as part of mixed-use projects.	Risk of dependence on overall urban development plans and their timetables

Source: bulwiengesa AG

The education sector is also set to benefit significantly from this. The funds will enable outdated schools, daycare centres and universities to be not only renovated, but also fundamentally rethought: from sustainable construction methods and digital equipment to the creation of additional capacity in growing cities and municipalities. The package thus not only opens up opportunities for qualitative renewal of the educational landscape, but also has a stabilising effect on the construction industry – an important aspect in times of economic uncertainty. However, there are also risks: implementation depends largely on the efficiency of government planning and approval procedures. Bureaucratic hurdles, limited human resources and political prioritisation could result in funds reaching the education sector late or not at all. For investors, this means that, in addition to the opportunities, strategic risk management is also necessary – for example, with regard to construction costs, approval times and the drafting of contracts with the public sector. Nevertheless, the investment offensive sends a strong signal – both politically and economically. It underscores the importance of educational infrastructure as a key task for the future of the state and offers a favourable environment for partnership models between the public sector and private capital.

Investment backlog in municipal education infrastructure

Educational real estate are no longer just public functional buildings. They are developing into an independent, highly relevant real estate class with a high ESG impact, stable returns and growing demand. Their social relevance makes them resilient to economic fluctuations and gives them a special position in the market environment. A key driver of this development is the existing investment backlog. According to KfW, the backlog for school buildings amounts to around 55 billion euros, with a further 13 billion euros needed for childcare facilities. Despite existing subsidy programmes, there is often a lack of planning capacity, political approval or simply the courage to break new ground in education financing. Despite existing subsidy programmes, there is often a lack of planning capacity, political approval or simply the courage to break new ground in education financing. Local authorities with tight budgets are particularly challenged by growing demands and shrinking room for manoeuvre.

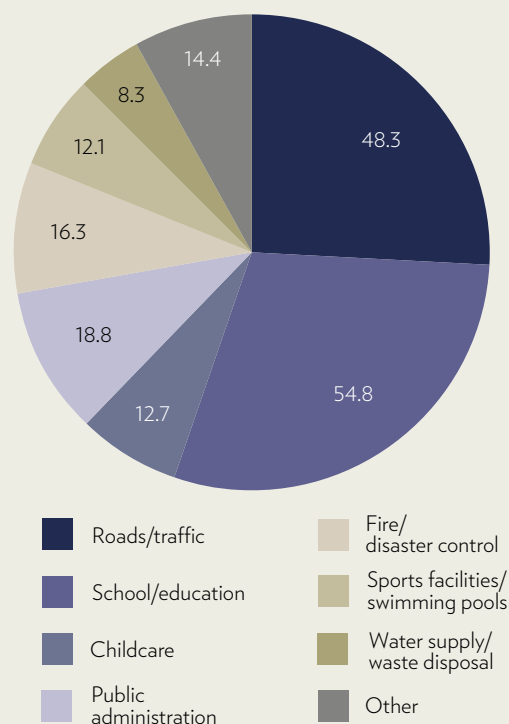
This opens up areas of activity for private investors who are not only looking for secure, long-term returns, but also want to use their capital in an impact-oriented manner. In Germany, the model of public-private partnerships (PPPs) or private-law rental models is still relatively young, but is gaining momentum. In daycare and school construction in particular, there is increasing activity by private companies that construct, operate or lease buildings – often under long-term contracts with public or non-profit organisations. These models enable the public sector to use new infrastructure at short notice without having to make immediate, extensive investments. For investors, in turn, this offers stable cash flows, predictable contract terms and ESG-compliant investment opportunities.

Demand is also set to rise in the future

There is considerable quantitative demand in the field of educational infrastructure across all levels of education. Early childhood education in particular shows a pronounced shortfall in the number of places available.

Investment backlogs by municipal areas of responsibility

in billion euros



Source: KfW Municipal Panel 2024

There is currently a shortage of over 300,000 places for children under the age of three across Germany, with gaps of up to 24 % in western German states such as Bremen and North Rhine-Westphalia. Including the three- to six-year-old age group the total demand for preschool childcare is around 440,000 places. Capacity requirements are also rising significantly in the school sector. Forecasts by the Conference of Ministers of Education assume that the number of pupils will grow to a total of 11.8 million by 2035. This corresponds to an increase of around 760,000 pupils compared to the current level. The secondary level is particularly affected, as additional space will be required. In addition, there is the legal entitlement to all-day care for primary school children, which will come into force in 2026 and will be introduced gradually by 2029. This entitlement will increase the demand for school rooms and additional space for afternoon care, leisure activities and catering. A long-term increase in student numbers is also forecast for the tertiary education sector. From 2027, the number of first-year students is expected to rise steadily, reaching a peak of around 526,000 in 2035. This development requires forward-looking adjustments to the higher education infrastructure in terms of capacity, equipment and flexible space

utilisation concepts. The growing demand for childcare and education places therefore extends across all age and school levels and is putting considerable investment pressure on the education infrastructure. For educational real estate, this means that in the coming years, more new buildings and extensions will be necessary to close quantitative gaps in supply and create qualitatively modern learning environments.

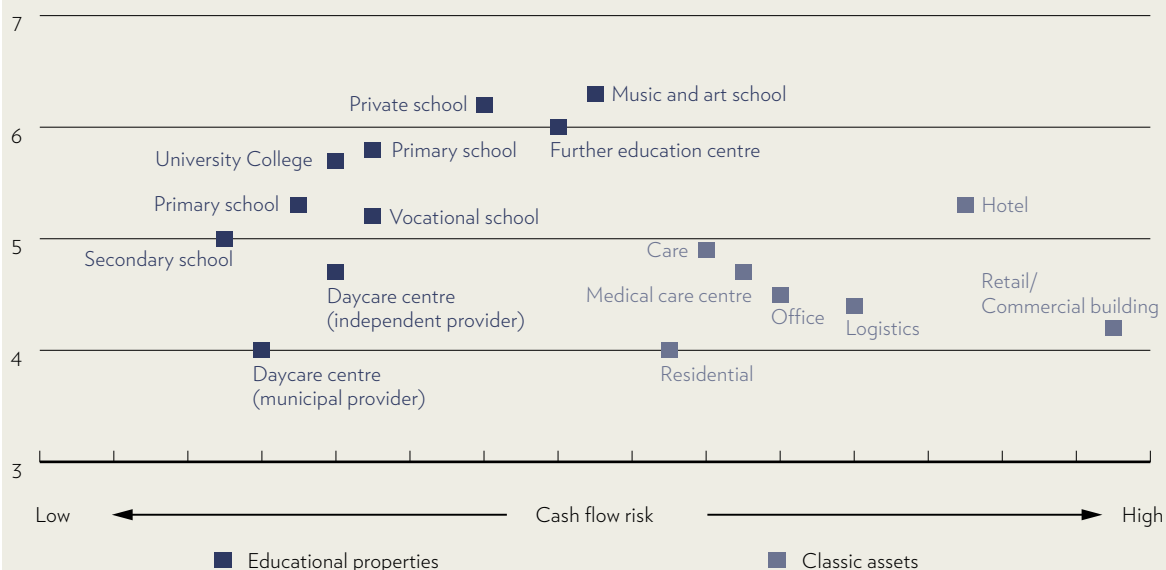
The educational landscape is changing

The demand is not only high in terms of quantity, but also complex in terms of quality. Today's educational spaces must be able to do more than in the past: They must support digital learning formats, promote social integration, be accessible to all and meet sustainable, energy-efficient standards. Traditional computer rooms have long been replaced by mobile devices and Wi-Fi-based learning platforms. School canteens are becoming recreation rooms, play areas and quiet zones complement lessons, and even the technical building equipment is following new standards: from solar power and smart heating systems to CO₂-neutral operation.

These developments are also reflected in increasing regulation. Requirements for fire safety, room sizes,

Risk/return profile of educational real estate

compared to traditional real estate assets, return in %



Source: bulwiengesa AG

inclusion and energy efficiency vary depending on the federal state and building type, which increases the planning and approval work for investors. At the same time, the education sector remains a highly sensitive area of society in which the influence of private actors is critically questioned – often in connection with concerns about the ‘commercialisation’ of education. Anyone investing in this sector needs not only capital but also expertise, experience in dealing with public partners and a high degree of communication skills and transparency.

The role of private investors

In order to tackle the renovation backlog and high investment requirements, alternative financing models are becoming increasingly important. This is where private investors come into play. Private companies take on the construction, renovation or even operation of school buildings and receive regular payments in the form of long-term leases in return. Particularly in large cities, projects have already been implemented in which private investors construct school buildings to modern standards and lease them to the public sector. Such models can help bridge financing gaps and implement construction projects more quickly.

Risk/return profile of educational real estate

In direct comparison with traditional real estate segments such as offices, logistics and hotels, educational real estate have an above-average risk/return profile. In particular, state-run facilities such as daycare centres and primary schools have high credit ratings and low cash flow risks.

Furthermore, educational real estate are particularly well suited to the requirements of modern capital strategies, combining social impact with financial stability. In an increasingly ESG-driven investment environment, they score particularly well in the ‘S’ (social impact) category. They create measurable social value – for example, through improved care ratios, barrier-free school buildings or new university places – and at the same time contribute to the economic stability of families, regions and cities. Impact investing is no longer a niche phenomenon, but is establishing itself as a central theme for institutional investors. Educational real estate makes a concrete contribution.

Conclusion: Shaping the future through educational spaces

Educational real estate are more than just social infrastructure – they are a sustainable building block in modern ESG strategies. The combination of long-term demand, government support, political backing and measurable impact makes them an attractive target for impact-oriented investors. Despite regulatory complexity and limited third-party usability, the opportunities outweigh the risks for long-term players. Educational real estate opens up new avenues for capital with social added value.

SWOT profile for educational real estate

Strengths

- Highly socially relevant use (education, care, research).
- Mostly long-term usage agreements with creditworthy operators (predominantly public sector).
- Politically and demographically supported demand.
- High ESG impact (S = social, E = sustainable construction & operation).
- Subsidies reduce effective capital requirements.
- Low volatility compared to traditional commercial properties.

Weaknesses

- Restricted third-party use.
- Lengthy planning and approval procedures.
- Complexity due to public regulations, requirements and funding model.
- Limited market transparency and valuation benchmarks.

Opportunities

- ESG regulations favour investments in social infrastructure.
- Growing investment needs in educational facilities.
- Rental and PPP models enable private investors to enter the market.
- Impact investing strategy

Risks

- Political dependence (funding framework, legal situation).
- Budget cuts or funding freezes can delay or jeopardise projects.
- Limited exit options due to close user ties.
- Rent or usage regulation.
- Increased construction costs and a shortage of skilled workers are hampering project implementation.

Source: bulwiengesa AG

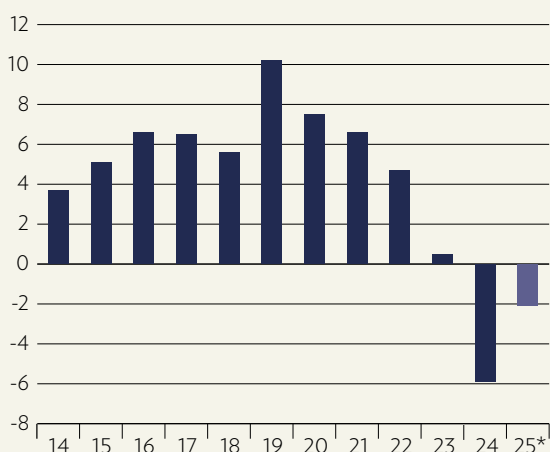


Indirect real estate investments

Real estate equities with positive price performance, real estate funds with further redemptions in the first quarter of 2025

German real estate stocks, like the entire European real estate stock sector (EPRA index), showed positive price performance in the first half of 2025. The stocks benefited from the ECB's renewed interest rate cut and their status as pure euro investments, with the associated diversification of international capital flows into the eurozone. Open-ended German real estate funds, on the other hand, faced further net outflows of EUR 2.1 billion in the first quarter of 2025, bringing total net outflows to over EUR 8 billion. Compared with total fund assets of EUR 120.1 billion at the end of March 2025, the net outflows of around 7 per cent are still limited.

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



Source: BVI, *as of Q1 2025

continue their debt reduction and sales programmes and have therefore again waived dividend payments for 2025. In contrast, the largest German and European real estate company was able to increase its dividend payment compared with the previous year, which points to good visibility and a positive outlook for the rest of the year. Various companies are also using the capital market to issue new (convertible) bonds in the first half of 2025. On a positive note, these bonds were issued with positive yield spreads relative to the net yields generated on the real estate portfolios due to the more attractive interest rate environment. In contrast to last year, when negative yield spreads were still accepted in some cases, this implies a significant improvement in the market environment and in the operating performance of real estate companies. We continue to see real estate companies at a clear advantage over open-ended real estate funds, which are likely to continue to face redemptions and competition from fixed-income investments. Real estate companies should also benefit from further diversification of international capital flows into the eurozone. In contrast, German real estate funds with US investments in their portfolios could face additional headwinds due to the uncertain tax situation.

Real estate companies still preferred

German (residential) real estate companies announced a stabilisation of portfolio valuations and slight increases in the second half of the year with the publication of their annual results for 2024. This was accompanied by a stabilisation of the debt situation. Nevertheless, various companies will

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Sources

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