Julius Bär

PROPERTY MARKET REPORT GERMANY

Residential and investment properties in Top 7 cities
along with indirect real estate investments
4th quarter 2025

Julius Bär

Contents

Current market environment

Following the regular revision of the national accounts, there has been a significant downward correction in GDP growth rates for the past few quarters. The current economic situation thus shows clear signs of a deeper recession than initially expected. At the same time, the outlook remains subdued due to structural problems.

Hopes rest on an upturn in 2026

After the German economy grew by 0.3 % in the first quarter and contracted by 0.3 % in the second quarter, the outlook for the second half of the year is subdued. A slight increase is currently expected, provided that the recent slight improvement in sentiment regarding economic expectations continues until the end of the year. Although industrial production is showing a moderate increase, it remains subdued, particularly due to the domestic market. There is also no significant upturn in the service sector.

Despite 3 million unemployed: employment on the rise

The labour market is defying the headlines, and although the number of unemployed exceeded the 3 million mark in August, the more important figure of seasonally adjusted unemployment has fallen. The number of employees subject to social insurance contributions also reached a historic high of 34.993 million. The problem is that new jobs are being created in below-average-paid sectors of the economy and are being cut in highly productive positions in industry.

Monetary policy with little momentum

The ECB projection updates brought an upward revision to short-term growth expectations and a small downward revision to the long-term inflation forecasts, keeping the door open for further rate cuts. We stick to our view of a 25 basis point cut in December. Beyond that, the probability of further monetary policy easing is declining.

Key figures at a glance

Forecast 2026

	Forecast 2026	ø last 10 years
Real GDP growth	1.1%	1.2%
Inflation	1.5%	1.7%
Unemployment rate	6.3%	5.8%
Household growth	0.4%	0.3%
New construction rate (residential)	0.5%	0.6%

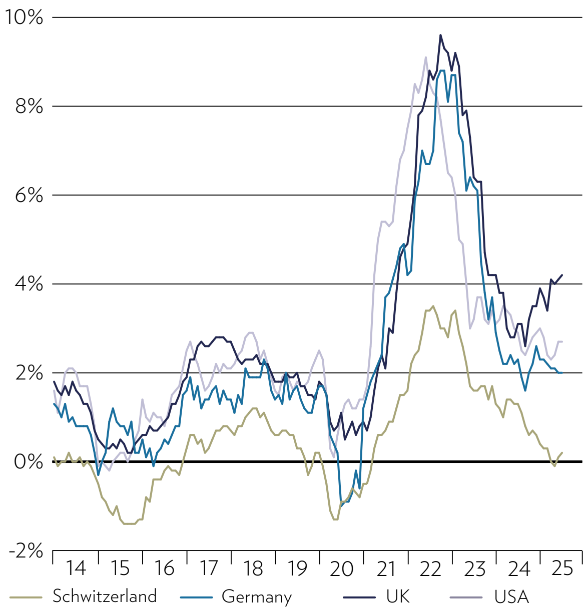
as of September 2025
Sources: Julius Baer Research, Federal Employment Agency, Federal Statistical Office (Destatis)

Hope dominates outlook

The positive outlook for 2026 is based on the expectation that the government's expansionary fiscal policy will give new impetus to economic policy and that companies will follow suit by investing thanks to more generous depreciation rules and a reduction in bureaucracy. So far, there has only been a slight improvement in sentiment, which has not yet manifested itself in an economic recovery.

Inflation

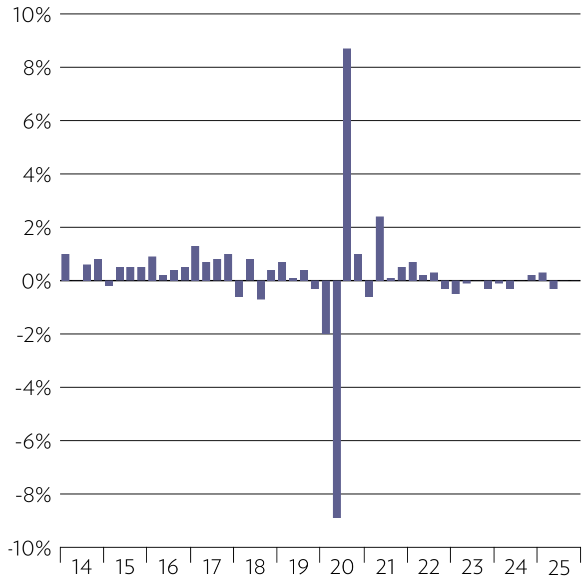
International comparison



As of September 2025 **Source:** OECD

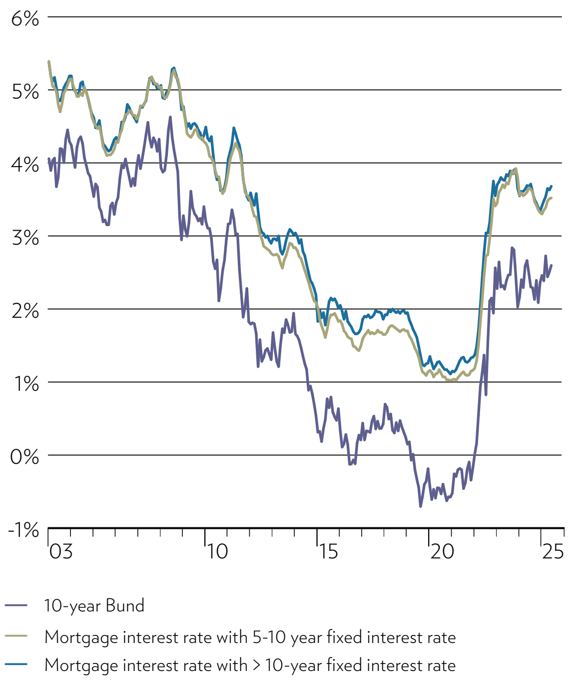
Economic activity

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: DE000BU2Z015)
Source: 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 Sept. 2025	Dec. 2025	March 2026	Sept. 2026
ESTR*	1.93	1.70	1.70	1.70
5Y SWAP	2.19	2.10	2.10	2.10
10Y SWAP	2.53	2.55	2.60	2.65

*** 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

In mid-2025, the German residential property market appears stable and is showing the first signs of a cautious recovery. Following a phase of declining prices and subdued demand, confidence is gradually returning. Both investors and owner-occupiers are adapting to the new market conditions, which is leading to a noticeably more stable dynamic.

Market recovery consolidates

The price trend in the second quarter of 2025 compared to the previous quarter confirms the assessment that the consolidation and price discovery phase is coming to an end. The real estate climate, which reflects the sentiment of market experts, appears to be largely stable and continues to be at a significantly higher level than in the cyclical segments when compared to other sectors. Nevertheless, there is still consensus that no fundamental market turnaround is to be expected for 2025. Market participants are therefore still acting cautiously, even though there is a noticeable increase in activity compared to previous quarters.

Strong pressure on the rental market – little relief in sight

The German rental housing market will remain characterised by a significant imbalance in the summer of 2025: Demand continues to significantly exceed available supply, especially in large metropolitan areas and dynamic university towns.

In addition to the continuing limited affordability of home ownership, which is pushing many households into the rental market, structural factors are also contributing to this development. For example, the continuing low level of new construction – as a result of increased construction costs, regulatory uncertainty and a shortage of land – means that the supply of housing is growing insufficiently. In the new-build segment in particular, the pressure is particularly high due to low completion rates.

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«.

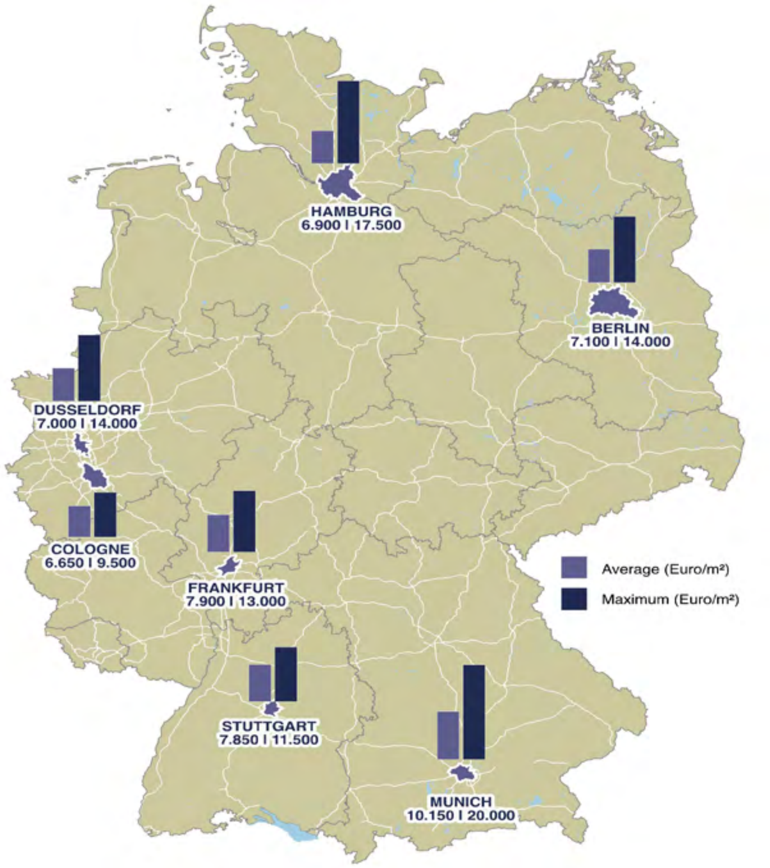
Key figures

Condominiums: Price development 2nd quarter 2024 – 2nd quarter 2025	1.5 %
Previous year´s value	-1.57 %
Owner-occupied apartments: Average listing period	51
In days, 2nd quarter 2025	
Single-family homes: Price development[1] 2023 – 2024	-1.9 %
Previous year´s value	-6.22 %
Single-family homes: Average listing period	43
In days, 2nd quarter 2025	

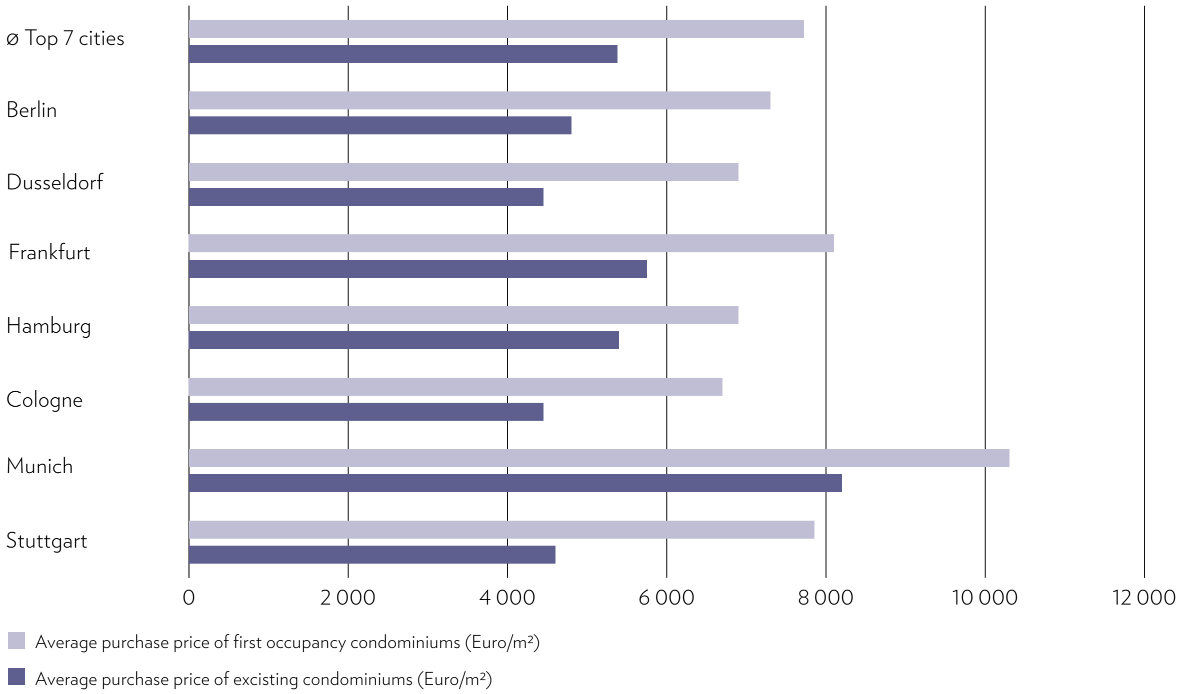
[1] Only annual values available for single-family homes

Source: bulwiengesa

Price level for condominiums 2024
Annual values



Price level for first occupancy and existing condominiums
Q2/2025



Source: bulwiengesa

Increases in purchase prices recorded

Compared to the same quarter last year, higher prices were recorded in all top 7 cities except Dusseldorf. In a direct comparison with the first quarter of 2025, purchase prices are at an almost identical level, which underlines the thesis that the bottom has been reached. Even though many buyers are still sensitive to financing costs, the mood has brightened compared to 2023/2024 and can be considered more optimistic. Overall, the situation points to a phase of stabilisation with a slight upward trend. With an average price of EUR 10,300/m² for new builds and EUR 8,200/m² for, Munich remains at the top of the rankings.

Purchase price forecasts are optimistic

Compared to the first quarter of 2025, existing apartments are now also showing a slight price recovery after stabilising. Their price adjustments were more pronounced recently, which was mainly due to more individual energy equipment. According to the current spring forecast for 2025, this stabilisation is expected to continue in the current year; noticeable price increases are expected again for the first time from 2026 onwards. The upward trend has already begun in the new-build segment: here, the rising values are no longer interpreted merely as stabilisation, but as genuine price increases. This development is also likely to continue in 2026. The most dynamic cities in this respect are Frankfurt and Stuttgart.

Tension in residential construction is rising

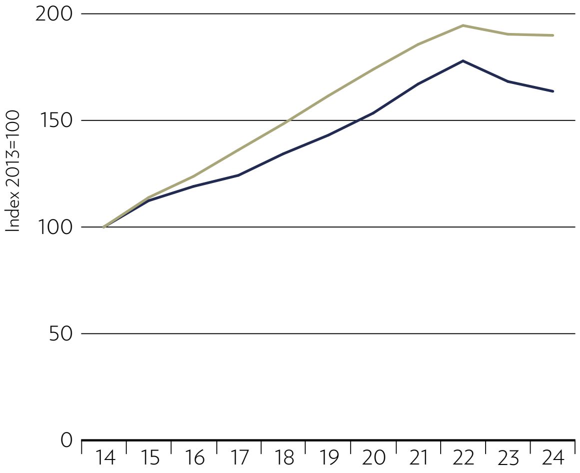
Housing completions declined again in 2024, with around 252,000 units, remaining below the previous year's level. At the same time, the continuing decline in the number of building permits since then clearly points to a sustained phase of weakness in new construction. In August 2025, there was still no sign of a real turnaround. Although political instruments are being discussed, there has been a lack of consistent implementation so far. Without concrete measures, the structural supply deficit threatens to worsen further in the coming years.

Current environment for upmarket residential property

In the premium residential property segment, strong price increases of between 12 % and 19 % are expected in Germany's top seven cities in the coming years. Although Munich currently holds the top spot at around EUR 20,000 per square metre, the forecast increase of around 15 % by 2029 will be surpassed by other cities. Hamburg (+18 %) and Frankfurt (+19 %) are expected to develop particularly dynamically. This means that maximum prices in Frankfurt are likely to climb to around EUR 15,500/m² and in Hamburg to EUR 20,700/m².

Development of purchase prices: condominiums and single-family homes

average of the top 7 cities

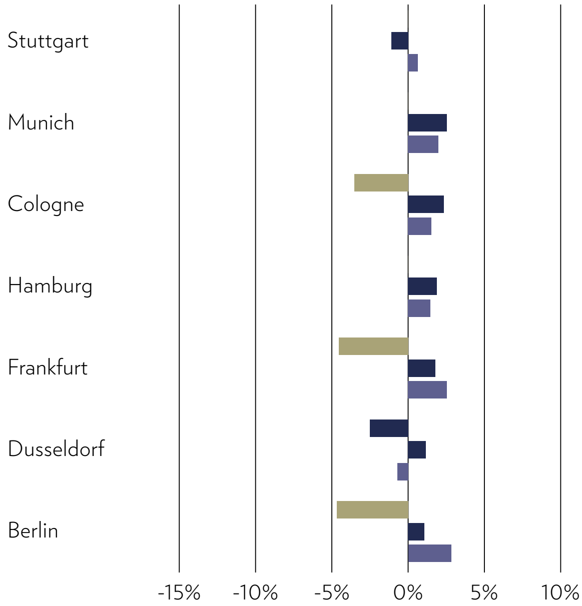


Purchase price of condominiums (average)

Purchase price single-family homes (average)

Source: bulwiengesa

Price trends in the top 7 cities



Average purchase price of single-family home (Euro/m²): Change compared to previous year

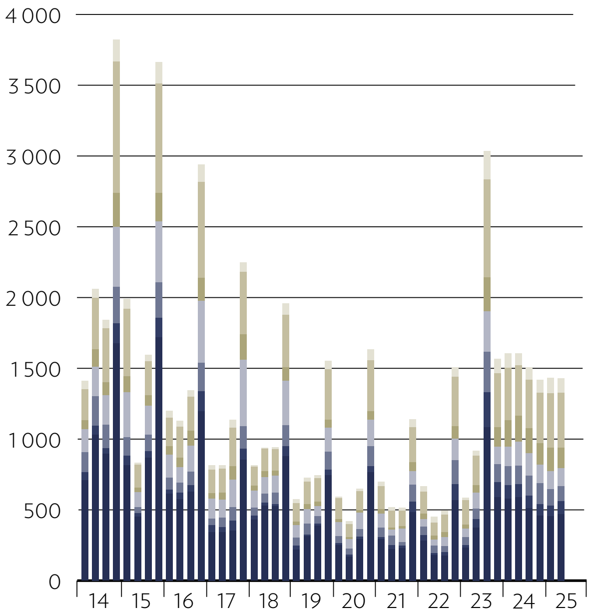
Average purchase price of resale condominium (Euro/m²): Change compared to previous year

Average purchase price of condominium first occupancy (Euro/m²): Change compared to previous year

Source: bulwiengesa

Offers: owner-occupied property

Number of advertised condominiums in the top 7 cities, quarterly



Berlin
Dusseldorf
Frankfurt
Hamburg
Cologne
Munich
Stuttgart

Source: IS24

Price expectations 2026

for condominiums in the top 7 cities

↗ Berlin
Dusseldorf
Frankfurt
Hamburg
Cologne
Munich
Stuttgart

↘ Price decline: <-1 %

→ Stability: -1 % bis 1 %

↗ Price increase: >1 %

Investment properties

Key figures top 7 cities, as of Q2 2025

ø Residential multiplier*	23.8
previous year´s figure	23.7
Net initial yield, office	4.5 %
previous year´s figure	4.5 %
Vacany rate, office space	8.0 %
previous year´s figure	5.9 %

The residential investment market continues to recover. In the first six months of 2025, the residential segment remains the asset class with the highest turnover in the German real estate market. Large-volume existing portfolios in particular are regaining importance. Foreign investors are also stepping up their involvement again. 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

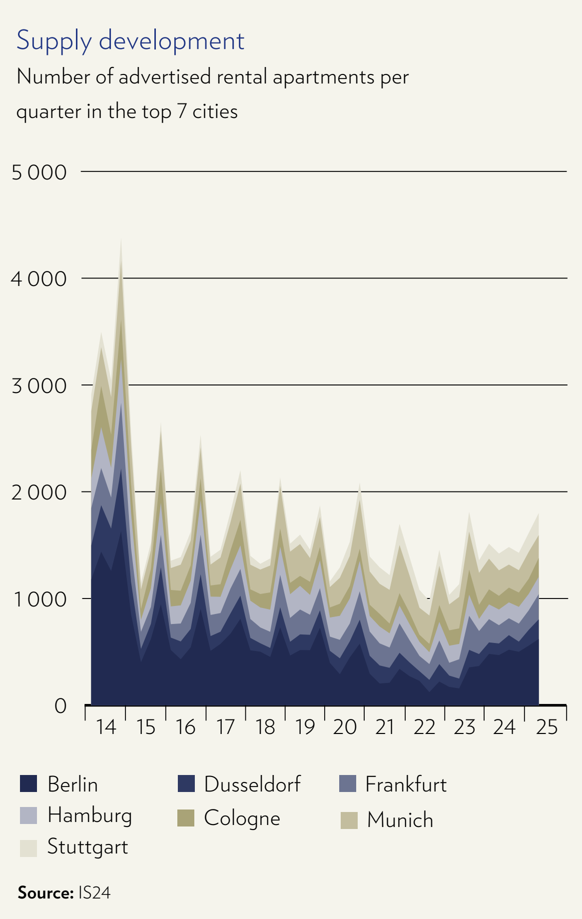
Rent increases continue in the second quarter of 2025

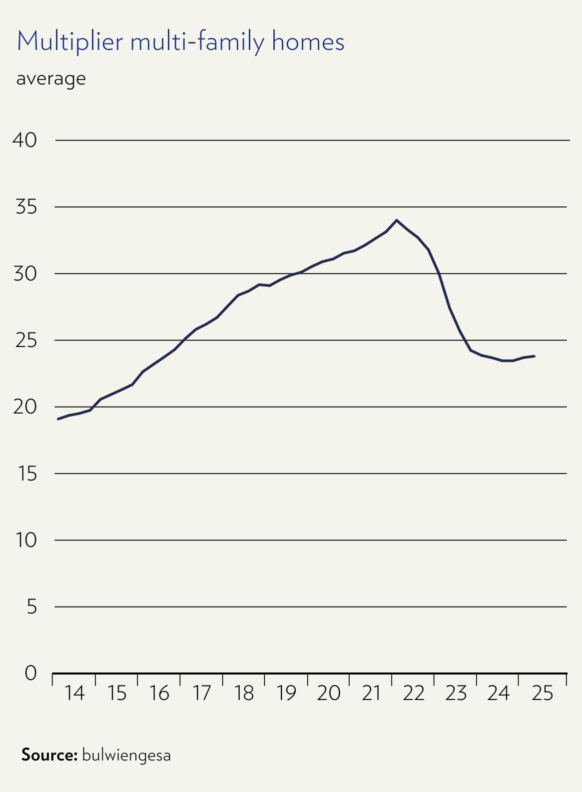
In the second quarter of 2025, the rental housing market in the top 7 cities continued to show a predominantly positive development. In the new-build segment, asked rents in Dusseldorf were up to 3 % higher than in the first quarter, while Berlin and Cologne recorded a sideways movement. For existing flats, the increases ranged between 0.5 % in Munich and 2.2 % in Dusseldorf. The year-on-year comparison reveals an even more pronounced trend: compared to Q2/2024, rents for new builds in Dusseldorf rose by around 11 %, while in the existing housing stock the same city led the way with an increase of 6.2 %. The reasons for this continue to lie in the low number of completions, which are unlikely to rise in the coming years due to a decline in approvals. Accordingly, forecasts up to 2029 anticipate further rent increases: in new construction, increases of up to 20 % are expected, and in existing properties, up to 23 % (based on 2024). This confirms expectations of a persistently tight rental market in all major cities.

Demand remains high – supply still under pressure

The German housing market appears to have stabilised in the summer of 2025, with initial signs of a slight recovery. In the top seven cities, demand for housing remains high, driven by immigration, urbanisation and an increasing number of smaller households. At the same time, supply remains tight: only around 252,000 homes were completed in 2024, and the number of building permits continues to decline. This supply gap will not be closed in the medium term.

Politicians are discussing reforms, such as speeding up approval procedures or a possible amendment to the Building Code. However, there has been a lack of concrete implementation so far. For tenants, this means that rents in major cities are likely to continue to rise, with some segments even seeing double-digit increases by 2029. For buyers of condominiums, the markets are expected to return to calmer waters after price adjustment in 2022/23, and a moderate upward trend is already emerging in new construction. For investors, this results in a market environment characterised by stability, with opportunities particularly in the new construction segment and in energy-efficient portfolios.





Office property market in the top 7 cities

The first half of the year was characterised by divergent developments. Frankfurt showed above-average take-up and further rent increases. Net initial yields remained stable in all A markets.

New construction volume below previous year's level

In the first half of the year, the top seven cities recorded a total of around 364,850 m² of new construction space, which is around 57,000 m² below the previous year's level. In the second quarter, around 198,000 m² were added. Munich accounted for the largest volume of space with around 89,500 m², followed by Berlin and Hamburg with 63,000 m² and 32,400 m² of completed space respectively. While the volume of new construction in Dusseldorf and Cologne was very low at 11,000 and 2,100 m² respectively, both Frankfurt and Stuttgart did not record any completions. The volume of new construction peaked in 2024. Many of the projects initiated before the coronavirus pandemic were completed in the course of the past year. The current construction pipeline in the top seven cities points to a further decline in completion figures for 2025. In addition to the changed demand structure and the continued challenging financing conditions, owners are increasingly focusing on their existing portfolios. This is reflected in a rising share of refurbishment measures in the total development volume.

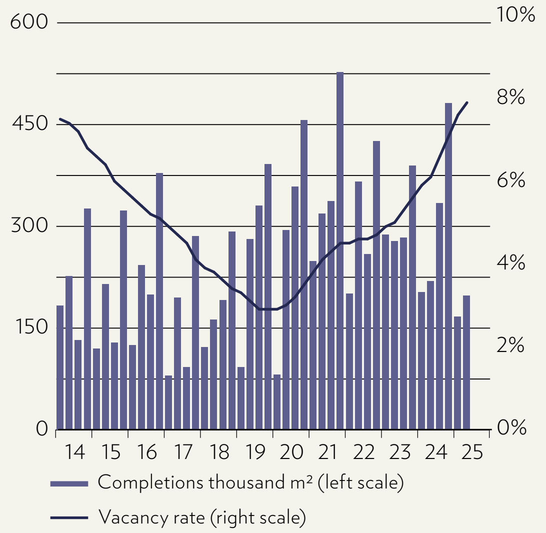
Average vacancy rate in A markets at 8 %

With an average of 8.0 %, the top 7 markets recorded an increase of 70 basis points compared to Q2 2024. The strongest increase was recorded in the Bavarian capital, with 240 basis points to 8.1 %, which is attributable to increased vacancies and completions, followed by Berlin with an increase of 200 basis points to 7.8 %.

As usual, Frankfurt and Dusseldorf had the highest vacancy rates in the second quarter of 2025, at 11.9 % and 11.4 % respectively. Cologne had the lowest vacancy rate at 5.5 %, followed by Hamburg at 5.9 %. This means that all of the top 7 locations have a vacancy rate that is above a healthy fluctuation reserve (3-5 %).

An increasing divergence in market development is expected for 2025. In some locations, high completion rates are likely to lead to rising vacancy rates, while other markets have already passed their peak and could see a stabilisation or decline in office space supply. Overall, only a slight increase in vacancy rates is forecast, which is expected to turn into a downward trend in subsequent years. At the same time, the structure of vacant space will continue to change: while a broad spectrum – including high-quality properties – is currently affected, future vacancies are likely to increasingly concentrate on properties with location or quality deficits and insufficient ESG compliance.

Supply situation in the top 7 cities



Source: bulwiengesa

Frankfurt achieves best sales result since 2022

The seven largest cities recorded a total space turnover of around 1.3 million m² in the first half of 2025, with around 617,000 m² accounted for in the second quarter. This exceeded the previous year's figure by around 10.5 %. In the second quarter, the largest turnover volume was recorded in the federal-capital Berlin with around 140,000 m² (compared to H1 2024, however, the turnover volume here decreased by 17 %), followed by Frankfurt am Main with 138,000 m². The Main metropolis thus recorded above-average turnover for the second quarter in a row – the last time a result significantly above the 100,000 m² mark was achieved was in the third quarter of 2022.

Compared to the previous year, Frankfurt was even able to increase this by around 104 %. In the second quarter, too, the sales performance is primarily attributable to a few large-volume deals. In addition to leases of over 15,000 m² to the German airline Condor in Alpha Rotex at the airport and over 13,000 m² to the German pension insurance company in Cityhaus in the banking district, the auditing firm KPMG leased space twice in Westend: around 20,000 m² in Park Tower and 12,800 m² in Opernturm.

The large-volume letting activities can therefore be seen in particular in city locations and in office locations. In Q2, Hamburg and Munich followed with a turnover result of 96,000 and 95,000 m² respectively, followed by Dusseldorf and Stuttgart with 57,000 and 51,000 m² respectively. Cologne brought up the rear with 40,000 m². However, the cathedral city recorded an increase in turnover of around 91 % compared to the previous year (H1 2024) due to the very good turnover performance in the first quarter of 2025.

In the first half of 2025, only a few A-markets saw a noticeable upturn in demand, which was primarily due to large-scale lettings. This can be seen as a positive sign, particularly in Frankfurt, where the dominant banking sector has tended to consolidate space in recent years.

Currently, US tariffs and Russia's ongoing war of aggression against Ukraine are affecting the economic situation. However, the German federal government recently announced the first positive signals for planned tax measures to relieve the burden on companies. In addition to investment incentives through special depreciation allowances, the package of measures includes a gradual reduction in corporate taxation. When and to what extent this can contribute to an economic recovery remains to be seen. In the short term, caution and flexibility continue to dominate market activity: many companies prefer to extend existing leases in the short term rather than committing to a new location in the long term.

Rental growth compared to the previous quarter in Frankfurt, Munich and Hamburg

Compared to Q2 2024, prime rents have risen in all of the top 7 cities, but compared to the previous quarter, they remain at a constant level, with the exception of Frankfurt am Main, Hamburg and Munich. Due to the attractive demand in urban locations, the prime rent in Frankfurt am Main rose by 2 % compared to the previous quarter and currently stands at 51.00 EUR/sqm. In Munich, the prime rent rose by 1.9 % to 55.00 EUR/sqm, while in Hamburg there was a marginal increase of 0.6 % to 36.00 EUR/sqm.

Office market figures top 7 cities

	Berlin	Dusseldorf	Frankfurt	Munich	Hamburg	Cologne	Stuttgart	Top 7 cities
Stock[1]	21.7	7.8	10.1	14.7	14.3	8.0	8.3	**84.9**
Vacancy rate[2]	7.8	11.2	11.9	8.1	5.9	5.5	6.0	**ø 8.0**
Prime rent[3]	45.00	41.00	51.00	55.00	35.80	33.00	34.50	**42.2**
NIY central location[4]	4.4	4.6	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 Q2 2025

Investment market

There was no change in net initial yields in the second quarter of 2025 either. Since Q2 2024, all signs have indicated that the price formation process in the top 7 cities has come to an end and that yields are stabilising across the board – since then, the average prime yield for office properties in central locations in the top 7 markets has stood at 4.5 % (4.4 % in Q1 2024). Munich remains the most expensive location with a net initial yield of 4.3 %. closely followed by Berlin with 4.4 %. The other top 7 cities range from 4.5 % to 4.6 %. 2025 however, there is no longer expected to be any scope for falling yields – on average, a further increase in yields of 10 basis points is forecast here, 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 second quarter, the real estate climate showed a positive development and rose by 1.4 % to 98.3 points. The main reason for this upward trend is the improved investment climate, which recorded an increase of 3.8 % to 96.8 points. The income climate, on the other hand, fell by 0.9 % to 99.9 points. There were differences in performance between the individual asset classes.

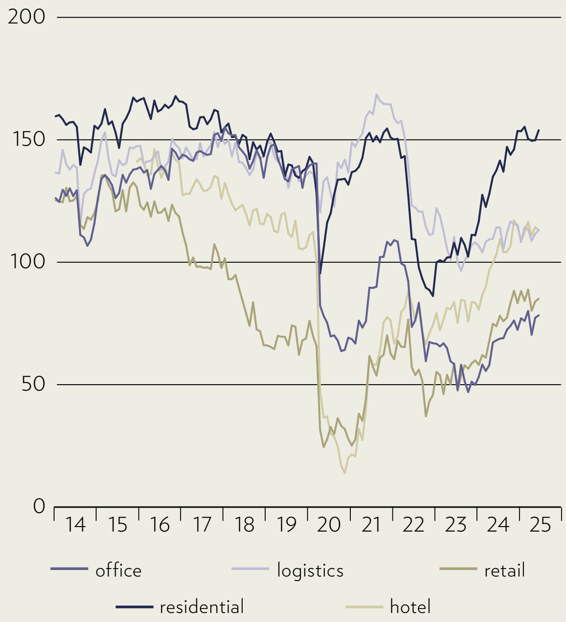
The residential climate continued its upward trend, rising by 2.7 % to 153.9 points in June, thereby further extending its leading position. Residential properties remain attractive to institutional investors due to their stable tenant structure and return prospects. The retail climate also developed positively, rising by 1.5 % to reach a value of 85.1 points. Despite uncertainties caused by the trade war between the US and Europe, the mood in the logistics asset class.

The office climate recorded an upturn of 1.3 % to 78.3 points. Volatile conditions at the global level continue to make forecasts difficult and, depending on the sector, are dampening willingness to invest and space turnover. Nevertheless, some transactions point to a positive movement in the market.

The hotel climate, on the other hand, was the only segment not to record an increase (-1.0 % compared to the previous month of May) and now stands at 113.0 points.

Deutsche Hypo Property Climate Index by segment

Index value up to June 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 - Retail in Germany

High street locations are making a comeback, shopping centres are moving towards differentiation

The German retail sector is characterised by a long-standing and ongoing structural change, which is reflected in an increasing loss of market share for brick-and-mortar retailers in favour of online retailers, as well as a continuous decline in active retail outlets. For 2025, the German Retail Federation (HDE) forecasts a slight increase of 2.1 % in nominal terms to EUR 678.4 billion, while a more dynamic development with a growth rate of around 4.1 % is expected for the online channel.

This presents complex challenges for the retail sector: while the sales forecast for the industry suggests optimism, consumer sentiment has recently cooled considerably. For example, the GfK consumer climate fell to -23.6 points in September (declining for the third time in a row). The main reason for this is growing job concerns, which are clouding income prospects. The main reason for this is growing concerns about jobs, which are clouding income prospects. The HDE consumer barometer is stagnating at 97.64 points, below the pre-crisis level of 100: the propensity to save is rising again, the propensity to buy remains weak and inflation expectations are growing. In terms of city centres, shopping remains the most important activity for a visit to the city centre, according to one of the findings of the 2024[1] Germany City Centre Study. This is followed by restaurants and cafés, visits to the doctor and health services, and meeting people. The other activities are moving closer to the retail sector that dominates city centres and already indicate the ongoing structural change in the retail sector. Shopping centres, which often replicate the retail offerings found in city centres, are also unable to escape this change. For a long time, the leading inner-city fashion industry dominated the mix of businesses in shopping centres. Ten years ago , fashion retail accounted for around 33 % of new leases in 2015/2016. Today, according to the EHI Shopping Centre Report 2025[2], 24 % of leases are for fashion retail, but 16 % are for catering and 12 % for services. Shopping centres differentiate their range of offerings depending on size (micro) location and catchment area in order to position themselves for the future.

High street rents as a reflection of retail development

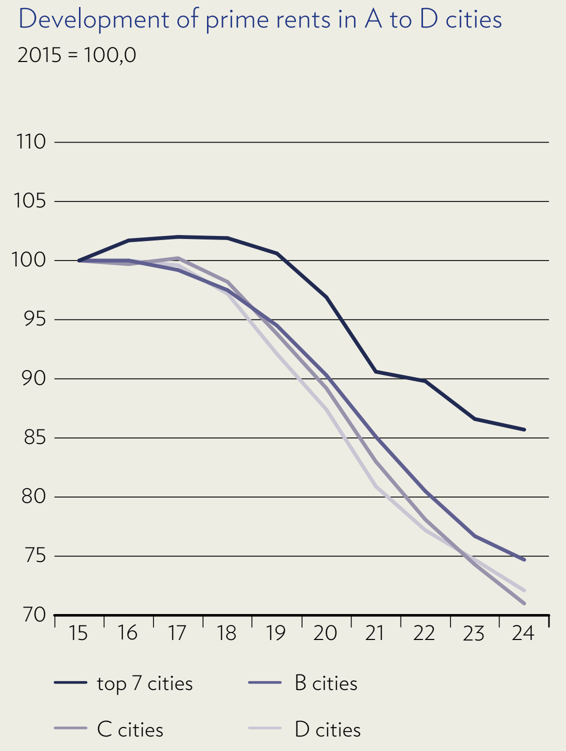
2015 marks the year of the last increase in prime rents in city centres in Germany. In the first half of the 2010s, prime rents in prime locations rose as a result of the rapid expansion of international chain stores, particularly in the fashion segment, prime locations. The high street locations of the top seven cities benefited particularly from this. However, B, C and D cities were also able to participate in this development at a lower prime rent level.

However, 2016/17 saw a stagnation, partly due to accelerated sales growth in online retail and the declining interest in expansion on the part of chain retailers, a stagnation set in which, from 2019 and with the onset of the coronavirus pandemic and the associated restrictions on brick-and-mortar retail, led to a significant decline in rents. In the top 7 cities, this adjustment process was relatively less pronounced at -14 % from 2015 to 2024 than in B (-25.3 %), C (-29.0 %) or D cities (-27.9 %).

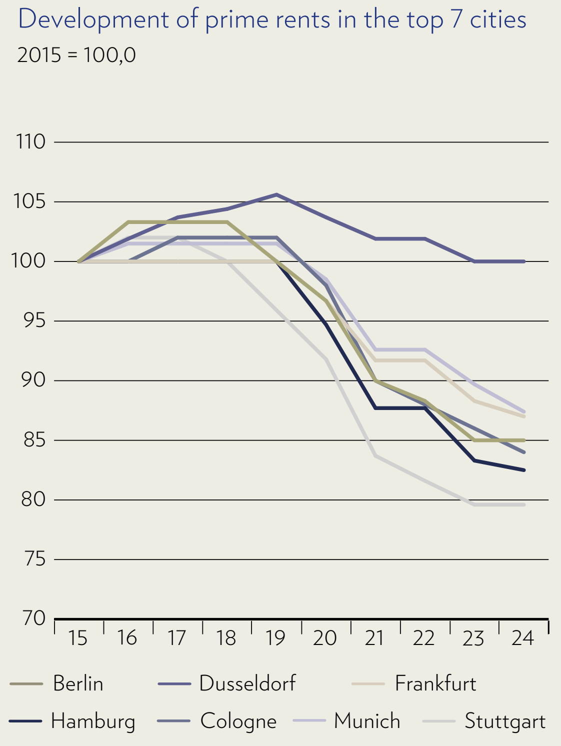
There is no end in sight to this decline in rents for many cities. Only in the top seven cities is there a sign of stabilisation or a reversal of the trend. In Stuttgart and Dusseldorf, there were no further declines in rents in 2024, and Dusseldorf, as the A city with the most stable rents, has returned to its 2015 level since 2023.

1 CIMA (publisher): Germany Study City Centre 2024, study in collaboration with the Federal Association of City and Town Marketing (Bundesvereinigung City- und Stadtmarketing e.V.) and the German Trade Association (Handelsverband Deutschland e.V.).

2 EHI in cooperation with the German Council of Shopping Places e.V.: Shopping Centre Report 2025, Cologne 2025



Source: bulwiengesa, RIWIS



Source: bulwiengesa, RIWIS

The highest prime rent continues to be achieved in Munich. It amounts to EUR 297/m² per month,falling below the EUR 300 mark for the first time since 2011. Dusseldorf follows in second place with EUR 270/m² per month and Frankfurt with EUR 261/m² per month. The lowest prime rent is achieved in Stuttgart with EUR 195/m² per month, followed by Cologne with EUR 210/m² per month and Hamburg with EUR 235/m² per month.

From 2026 onwards, a modest increase is forecast for prime rents in prime locations in the top seven cities. If the rent level reflects retail sales expectations, rising prime rents signal greater confidence and higher sales opportunities. This is because the high street locations of the top 7 cities are currently back in the focus of expansionists. Due to the diverse location qualities – e.g. high customer footfall, tourist and international demand, high space and property quality, professional asset management, etc. – the opportunity to realise the latest flagship store concepts and experience stores and present curated offerings to a sufficiently large demand. In addition, stores in the best locations have a positive impact on the brand, including the company’s own website and online shop, thus also strengthening emotional brand loyalty.

Vacancy rates on the move

The changing demand for space is not without an impact on the development of vacancy rates in high street locations. But shopping centres, which often reflect the retail mix (mix of sectors/suppliers) of city centres, are not spared from the changes in space demand in brick-and-mortar retail.
For high street locations and secondary locations as well as shopping centres in the top 7 cities, bulwiengesa has data available based on annual surveys. Between 2015 and 2024, the vacancy rates for retail space increased in all of the top 7 cities analysed (excluding Dusseldorf and Stuttgart),vacancy rates for retail space increased in all location categories, albeit to varying degrees. The vacancy rate, expressed on the basis of retail units, increased in high street locations from 1.4 % in 2015 to 8 % in 2022 and will remain at this level until 2024.
During the same period, both shopping centres in the top 7 cities analysed and secondary locations recorded an increase from 4.5 % and 3.1 % to 15.3 % and 14.0 % respectively.

In shopping centres, however, the development of vacancy rates is not uniform across all centres. Rather, the range between the minimum and maximum vacancy rates in the centres surveyed increased, and as a result, the average vacancy rate also rose. While centres in Munich, for example, had a vacancy rate of between 0 and 6.8 % (average 2.4 %) in 2015, this rose to between 5 % and 23.4 % (average 7.7 %) in 2024. A similar trend can be observed in the shopping centres of the other top 7 cities. In comparison, high street locations are extremely vibrant and stable. Although the range has also increased significantly here in 2024 compared to 2015, the total has risen from a low level of 0.4 % to 2.6 % (average 1.4 %) in 2015 to 5.9 % to 11.3 % (average 7.9 %) in 2024.

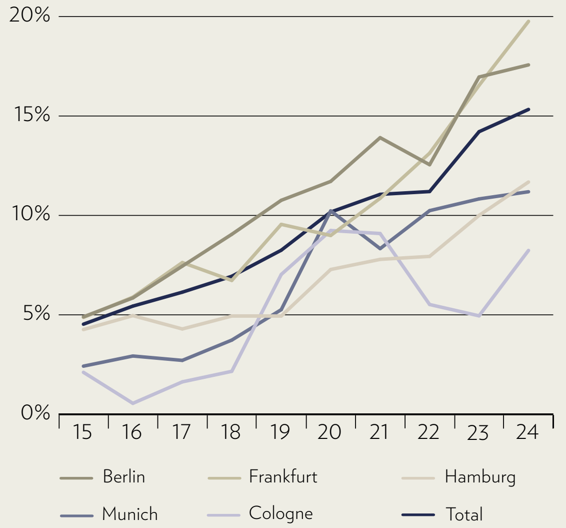
Reactions and conclusions from the development

The stabilisation of vacancy rates in high street locations goes hand in hand with a stabilisation of high street rents. During the phase of higher space availability and the resulting decline in rents, some tenants who were previously located in secondary locations were able to rent space in the high street. As a result, the vacancy rate in secondary locations is continuing to rise, while in high street locations, stabilisation or even a decline can already be observed. At the same time, however, there has also been a conversion of retail space in high street locations in the form of space reduction, space division, etc. The increase in attractiveness in city centres associated with the reoccupation of previously vacant space is leading to increased customer footfall and, with a time lag, to rising tenant demand for space. Alternatively, tenants are once again focusing on the space available in secondary locations, which is also leading to a reduction in vacancy rates there. The high street locations of the top seven cities are currently in precisely this phase of transition, meaning that over the next two years, a decline in vacancy rates in the secondary locations of the top seven cities can be expected.

However, there is also a change in tenant occupancy in the city centre locations themselves. Where as in the past decade, fashion retailers were by far the largest group of tenants, restaurants and food retailers are now also coming increasingly into focus. This reflects the changing perception of city centres as residential locations. The increased mobilisation of residential space in city centres is also driving demand for everyday goods. Shopping centres are showing greater differentiation, as the range of current vacancy rates is significantly wider

Development of vacancy rates in shopping centres and cities

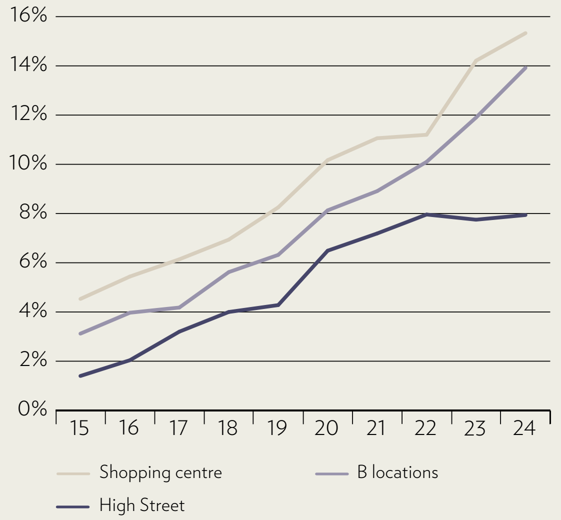
in per cent



Source: bulwiengesa, RIWIS

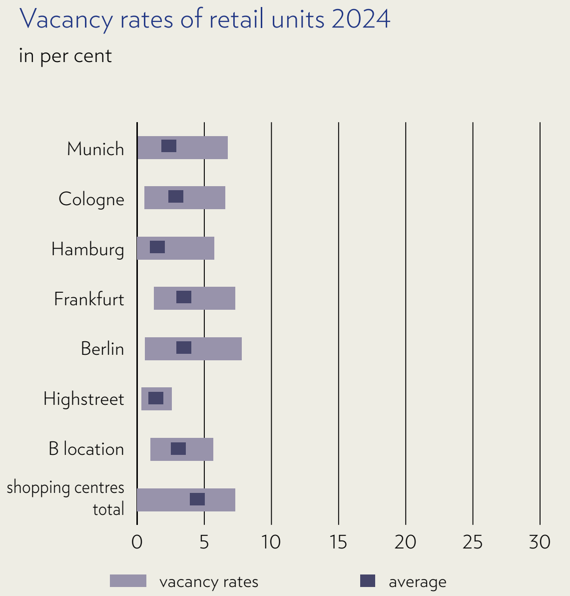
Development of vacancy rates in high streets, B locations and shopping centres

in per cent



Source: bulwiengesa, RIWIS

Source: bulwiengesa, RIWIS



Source: bulwiengesa, RIWIS

than in city centre locations. However, vacancy rates are also falling here. Small and micro spaces are often combined with adjacent/neighbouring larger spaces to form a single rental unit and offered to the tenant represented there as an extension of their space.
Overall, the number of rental units is gradually decreasing, while the average rental space per rental unit is increasing. There is also a change in the mix of sectors and tenants.
Even centres with a high fashion competence, i.e. fashion accounts for more than 40 % of the centre's rental space, are increasing their share of tenants for goods of periodic need and are continuing to develop into neighbourhood centres. This development is particularly evident in centres located in urban districts. Regional malls, on the other hand, have so far managed to keep their vacancy rates low and remain attractive to customers by integrating the latest concepts, among other things. But here too, an increase in the proportion of everyday goods can be observed, with the aim of creating further reasons for visitors to come or enabling customers to buy groceries at the end of their shopping trip as a 'service'.

Conclusion

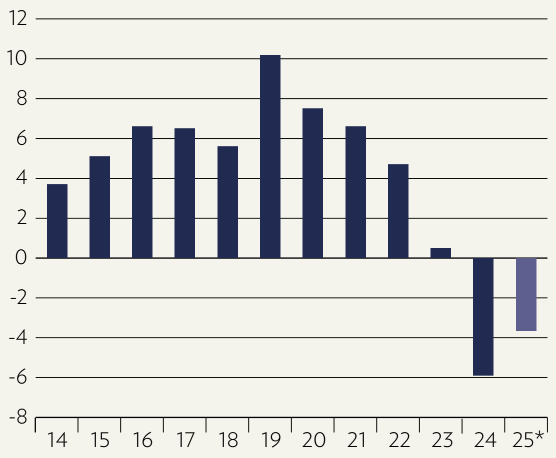
For high street locations in the top seven cities, there are signs of increased demand for new retail space leases. This should also benefit secondary locations over time. The resulting increase in the attractiveness of the mix of offerings in shopping metropolises should also ensure the success of the currently much-discussed redevelopment of city centres.
This is because new concepts and offerings contribute to stable rental developments, which encourage owners to invest more heavily in their properties and their location environment. In the shopping centre segment, at least a division into two groups is emerging. The top shopping centres are strengthening their broad and deep mix of retail sectors and supplementing this with a differentiated range of catering and retail-related services. They form a shopping offering that is almost analogous to high streets with regional appeal. In contrast, neighbourhood centres are strengthening their roots in the neighbourhood and district by offering a diverse mix of everyday goods as well as a wide range of services and healthcare options. They are gradually reducing their vacancy rates by supplementing the (reduced) retail offering with new everyday amenities such as fitness centres, community offices, district libraries, doctors' surgeries and educational institutions.

Indirect real estate investments

Residential real estate companies with positive portfolio revaluations in the first half of 2025 and increasing activity on the capital market

German real estate companies focusing on residential properties reported good half-year results for H1/2025 thanks to revaluations of their residential property portfolios. However, this positive operating performance with rising net asset value (NAV) was somewhat dampened by the ECB's failure to cut interest rates in September 2025, which led to some price declines. Open-ended German real estate funds faced further net outflows of EUR 1.6 billion in the second quarter of 2025, bringing the total to around EUR 10 billion since the beginning of 2024. Compared to the total fund assets of open-ended real estate funds of EUR 117.6 billion at the end of June 2025, net outflows of around 8 per cent are still within limits.

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



Source: BVI, *as of Q2 2025

Real estate companies raise funds on the capital market

German residential real estate companies benefited from increased investor appetite for equity and debt issues. This enabled existing bond placements to be successfully increased and an accelerated book-building transaction by a real estate company to be successfully completed in August 2025. It is positive to note that, due to the more attractive interest rate level, the bonds could be issued with a positive yield spread to the net yields generated on the property portfolios. In contrast to last year, when negative yield spreads had to be accepted in some cases, this implies a significant improvement in the market environment.

Open-ended funds on the buy and sell-side

Individual real estate fund providers continue to be active on the sell-side, as demonstrated by a recent individual transaction worth EUR 700 million in Paris (closing in the fourth quarter of 2025) involving an open-ended German fund. On the other hand, there are also funds that have successfully reported major acquisitions. In September 2025, for example, an open-ended German fund successfully acquired a logistics property in southern Switzerland (Canton of Ticino) with a total floor space of 50,000 m^2. Market participants assume a purchase price of around EUR 80 million. If the appreciation reported in the residential property sector is also reflected in the commercial sector and thus in the valuations of the commercial portfolios of numerous open-ended funds, we believe that net outflows will stabilise or come to an end. However, this also requires a stabilisation of the yield on long-term German government bonds, which would make fixed-income investments less attractive compared to open-ended.

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Sources

Data sources are the Federal Statistical Office, the Federal Employment Agency, the Deutsche Bundesbank, Immoscout 24, Deutsche Hypo Immobilienklimaindex, OECD and BVI, the databases of bulwiengesa GmbH and Bank Julius Baer & Co. Ltd.

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