

MARKET ENVIRONMENT REPORT

Regarding the Residential Market in Germany

Q2-2020

Intro

In order to analyze the German residential real estate market in a comprehensive way, in a globalized world it is essential to also consider the underlying market environment. As a sub-market of an international financial transaction market, the German residential real estate market clearly interacts with the major movements of international markets. This primarily applies to developments in the major economies.

As an export nation, Germany's economic growth is heavily dependent on a positive trend in foreign markets and must maintain its competitiveness. The attractiveness of a sub-market, such as the German residential market, is therefore largely determined by this competitiveness and healthy export partners.

In the following pages, the key indicators of Germany's largest trading partners are discussed: the United States, China and the European Union.

The local economy and the implications for the German residential real estate market are highlighted as well.

Moreover, the current developments in the German residential market are outlined in detail and the potential impact on the different buyer groups is pointed out.

Finally, the exchange rate developments of the Euro are highlighted and its implications on the demand of foreign buyers in the German residential market are discussed.

Overview - Market environment

Global Markets

Category	Indicator	CH	US	EU	GE	Q3	Q2	
Overall Development and Trend								
GDP	GDP							
	GDP Components	Government Spending						
		Private Consumption						
		Private Investment						
		Exports						
		Imports						
Economy	GDP Drivers	Unemployment Rate						
		Industry Production						
		Services						
		Employment Costs						
		Inflation						
	Money Market	Real Estate Prices						
		New Debt/GDP						
		Core Interest Rate						
		Yield Govt. Bond 1 Y						
		Yield Govt. Bond 30 Y						
Prospects	Economic Climate	Business Tendency						
		Consumption Climate						
		PMI						
		Stocks						
Exchange Rates	Dollar/Euro (US)							
	Pfund/Euro (UK)							
	Yuan/Euro (CHN)							
	Yen/Euro (JPN)							
	Rubel/Euro (RUS)							
	Lira/Euro (TUR)							
	Rupee/Euro (IND)							
	Yuan/Dollar (CHN)							



Apartment Markets Germany

Category	Indicator	Q2	Q1
Price Indices	Prices Living allgemein	Apartments Top-7	
		Apartments Kreisfreie Großstädte	
		Apartments städtische Kreise	
		Apartments ländliche Kreise	
		Single Family Houses Top-7	
		Single Family Houses Kreisfreie Großstädte	
		Single Family Houses städtische Kreise	
		Single Family Houses ländliche Kreise	
	Prices Living owner occ.	Living	
		Apartments owner occ.	
		Living Top 7	
		Apartments Top 7	
		New Rents Top 7	
		Multiple Family Dwellings Top 7	
Construction	Living Global	Case-Shiller U.S. National Home Price Idx	
		Real Residential Property Prices for China	
		Wohnimmobilienpreisindex Europa	
	Supply	CCI (Construction Cost Index)	
		Building Permissions (flats)	
		Revenue Construction Industry	
		Completed Constructions (flats)	
		Construction overhang (flats)	
	Demand	Production Index Construction Industry	
		Loans Private HHs Living until 1 Year	
		Loans Private HHs Living 1-5 Years	
		Loans Private HHs Living 5 until 10 Years	
		Loans Private HHs Living > 10 Years	
	Climate	Contracts Construction Industry (flats)	
IW Köln Situation Living			
IW Köln Market-Prospects Living			
IW Köln Real Estate Climate Living			
DIMAX			



Summary – Global Economy

In Q2 the impact of SARS-CoV-2 in the global economy reached its preliminary peak. The US displayed a record annual economic contraction. Private demand decreased since consumption, private investment as well as investment into housing decreased substantially. This could in consequence impact German Exports negatively and thus also retard German industry production and economic recovery in general, even beyond Q2.

In China latest numbers have affirmed an economic recovery. The country will thus most likely play an important role in the recovery of German industry production and exports. In the medium-term this will expand China's importance to the German economy.

European fundamental data collapsed in Q2. An exception was government spending that decreased only slightly. For the first time in years also unemployment grew considerably, a trend that will probably prevail in Q3. Inflation stagnated due to a decrease in energy prices and dampened overall demand. In addition, economies across Europe recover at different paces.

As expected, negative growth of the German economy displayed double digits in the second quarter. Government spending was the only indicator showing a slight increase. Exports even decreased by more than 20 %. However, in comparison to other countries Germany still exhibits solid crisis management as well as modern healthcare and financial strength. It thus remains attractive for international capital.

Summary – German Residential Market

The German condominium market shows relatively little reaction to the global economic slump as a result of the SARS-CoV-2 measures.

Both supply and demand side display mild decreases, where the demand side seems to be slightly more affected. In the short term this could cause a minor decrease in condominium prices. However, in the medium- and long term especially the decrease in construction contracts could further increase prices.

With regard to developments in the global economy under the influence of SARS-CoV-2, Germany reacted relatively well and seems to be recovering rather quickly, even though there is a high level of uncertainty involved. ***The German condominium market can consequently enhance its reputation as a „safe haven“ for international capital.*** In addition, the German residential properties can also contribute to Germany's appeal. Thanks to the federal system, for example, there can be found a number of attractive locations for residential investments that still provide opportunities to invest into Core objects. According to UBS, 70 % of European investment transactions in contrast, were based on opportunistic objects. In consequence, according to BNP-Paribas, the volume of residential investment of transactions involving 30 units or more has increased to a five year high during the first half of 2020. This is remarkable, even though a considerable part of the transactions can be attributed to the merger of Adler Investments and Ado Property. Living is now the biggest asset class in the German real estate market, amounting to 35 % of total Assets (JLL); 42 % of total transaction volume can be located in the Top-7 cities.

Because of the high demand for German residential investments and decreasing supply, further increasing prices of condominiums can be expected for the future. The ECB supports this trend by a super expansionary monetary policy. Between June and August of this year the money supply M3 has increased by around 300 Billion Euros and reached a yearly growth rate of about 10 %. Interest rates are accordingly low and will remain low at least in the medium term. Positive investment yields combined with low risk are therefore increasingly hard to find; the German condominium market provides one of few opportunities. It can therefore be expected that demand for German condominiums and residential investment opportunities will not decrease in the medium and even long term, especially in the Top-7 cities.

International – China

Category	Indicator		Change	Change	Change	Q2-20	Q1-20	2019	2018	2015	
			Y-o-Y ('19- '20) Q2	Y-o-Y ('19- '20) Q1	Y-o-Y ('18- '19) Q4						
GDP	GDP	Index 2015=100	3.20%	-6.80%	6.00%	103.20	93.20	106.10	106.70	107.00	
	GDP Components	Government Spending	Index 2015=100	-124.50 p.p.	0.80 p.p.	-3.40 p.p.	-73.30	64.10	57.80	65.90	69.00
		Private Investment	Index 2015=100	122.20 p.p.	4.00 p.p.	7.60 p.p.	156.70	21.50	31	42	23
		Exports	Index 2015=100	2.30 p.p.	-4.80 p.p.	-4.20 p.p.	16.60	14.40	11	-7.40	8
		Imports	Index 2015=100	-	-	-	-	-	-	-	-
Economy	GDP Drivers	Unemployment rate	in %	0.00 p.p.	0.00 p.p.	-0.10 p.p.	-	-	3.60	3.80	4.10
		Industry Production	Index 2015=100	-1.39%	-13.76%	-0.45%	104.10	91.50	105.70	106.10	105.70
		Inflation	Index 2015=100	-	-	0.49%	-	-	102.90	102.10	101.40
		Real Estate Prices	Index 2010=100	-	-2.09%	3.32%	-	107.16	-	109.45	94.26
	Money Market	New Debt/GDP	in %	-	-	3.85 p.p.	-	-	-	50.64	41.07
		Core Interest Rate	in %	0.00 p.p.	0.00 p.p.	0.00 p.p.	2.90	2.90	2.90	2.90	3.25
		Yield Govnt. Bond 1Y	in %	-0.18 p.p.	-0.32 p.p.	-0.35 p.p.	2.14	1.65	2.43	2.47	2.38
		Yield Govnt. Bond 30Y	in %	-0.05 p.p.	-0.13 p.p.	-0.15 p.p.	3.62	3.28	3.76	3.73	3.65
Prospects	Economy-Climate	Business Confidence	Index 2015=100	0.61 IP	-2.46 IP	-0.54 IP	98.79	95.70	98.05	99.07	98.26
		Consumption Climate	Index 2015=100	-3.43 IP	-0.86 IP	2.15 IP	101.70	104.24	105.19	104.00	98.32
		PMI	Index accum.	1.50 IP	1.50 IP	-0.71 IP	50.90	52.00	49.73	50.90	49.90
		Stocks	Index accum.	0.22%	-10.99%	10.97%	2985	2750	2779	2872	3250
Overall Development		Trend									

Chinese real GDP grew by 3.2 % y-o-y in Q2, China has thus overcome the recession.

A rescue package worth over 3 % of GDP is supporting the economy through tax cuts, lower interest rates, lower utility prices and a boost to employment.

Government spending has contributed 5 points or 156 % to GDP growth. This is a significant jump compared to the 85 % recorded in response to the global financial crisis in 2008-2009, as a result of which construction activity increased by 7.8 % in the second quarter.

Despite an initial improvement compared to Q1-2020, private consumption has not yet recovered and diminishes GDP growth by 2.9 percentage points.

By contrast, production in the manufacturing sector performed on the upside, rising again to 4.4 % growth in the last quarter. Despite China's difficulties in the context of international relations, global demand has proved resilient and made a positive contribution.

China's economy appears to have withstood the economic impact of the SARS-CoV-2 health crisis. Therefore, a stronger CNY/USD exchange rate can be observed. Nevertheless, the economy remains dependent on monetary and fiscal policy incentives, so it remains to be seen how the Chinese economy can further develop in the future.

CONCLUSION: China's economy appears to have withstood the economic impact of the SARS-CoV-2 health crisis. A stronger CNY/USD exchange rate can be observed. Nevertheless, the economy remains dependent on monetary and fiscal policy incentives, so it is to be seen how the Chinese economy can develop in the future.

International – USA

Category	Indicator		Change	Change	Change	Q2-20	Q1-20	2019	2018	2015	
			Y-o-Y (*19- '20) Q2	Y-o-Y (*19- '20) Q1	Y-o-Y (*18- '19) Q4						
GDP	GDP	Index 2015=100	-9.14%	0.32%	2.34%	106.70	117.37	117.75	115.07	107.45	
	GDP Components	Government Spending	Index 2015=100	2.14%	2.70%	3.00%	107.46	106.72	105.17	102.77	98.56
		Private Consumption	Index 2015=100	-10.54%	0.19%	2.46%	107.38	119.18	120.65	117.61	108.31
		Private Investment	Index 2015=100	-16.77%	-4.23%	-1.02%	108.89	127.17	130.50	128.18	118.41
		Exports	Index 2015=100	-23.24%	-2.55%	0.35%	88.67	113.87	115.59	115.59	108.45
		Imports	Index 2015=100	-22.36%	-5.32%	-1.91%	97.98	118.96	126.33	125.12	112.26
Economy	GDP Drivers	Unemployment rate	in %	7.40 p.p.	0.40 p.p.	-0.40 p.p.	11.10	4.40	3.50	3.90	5.00
		Employment Costs	Index 2005=100	2.92%	3.24%	2.97%	140.80	140.30	137.40	133.40	123.30
		Industry Production	Index 2015=100	-14.36%	-2.38%	-0.68%	93.48	107.69	109.50	110.55	102.10
		Services	Index 2015=100	-9.34%	0.91%	4.60%	110.60	121.70	121.40	115.80	
		Inflation	Index 2015=100	1.28%	2.21%	2.31%	110.60	111.00	110.50	108.00	101.60
		Real Estate Prices	Index 2010=100	3.59%	3.45%	2.55%	126.90	126.00	120.70	117.80	100.00
	Money Market	New Debt/GDP	in %	-	3.25%	1.52%	-	107.71	104.96	104.19	100.65
		Core Interest Rate	in %	-2.30 p.p.	-1.76 p.p.	-0.72 p.p.	0.08	0.65	1.55	2.27	0.24
		Yield Govnt. Bond 1Y	in %	-0.92 p.p.	-0.58 p.p.	-0.41 p.p.	0.17	1.07	1.58	1.94	0.23
		Yield Govnt. Bond 30Y	in %	-0.50 p.p.	-0.38 p.p.	-0.31 p.p.	1.38	1.87	2.25	3.27	2.96
		Prospects	Economy-Climate	Business Confidence	Index 2015=100	-1.15 IP	-1.27 IP	-1.92 IP	98.67	99.08	99.57
Consumption Climate	Index 2015=100			-24.40 IP	2.10 IP	-0.90 IP	74.10	96.60	96.00	98.40	92.90
PMI	Index accum.			-10.80 IP	-1.70 IP	-2.70 IP	39.80	50.70	52.60	55.30	51.20
Stocks	Index accum.			1.72%	12.27%	14.23%	2932	3055	2913	2746	2061
Overall Development	Trend										

In Q2 the US economy experienced a record y-o-y decline in economic output. Private demand contracted as consumption, corporate investment and residential construction investments dropped. These losses were partially offset by government spending, including massive federal spending on SARS CoV-2 testing, protective equipment and the implementation of the Paycheck Protection Program, under which each citizen received a one-time payment of \$1,000.


The recession in the U.S. is likely to have lasted only two quarters, but GDP contracted far more than during the 2008-2009 financial crisis, with an overall decline of only 3.9 %.

It is unusual that average disposable household income rose by 33% in the second quarter despite huge job losses. This was due to transfer payments. Accordingly, the savings rate rose twice as fast as the decline in consumer spending. According to the recovery in some sectors, such as housing construction, these savings deposits already appear to be supporting the recovery process. Sales of newly built apartments rose to a 13-year high in June. In the market for existing properties, sales prices rose by 3.5 % year-on-year in June due to the increase in units sold and the low supply.

Household spending on goods recovered more quickly than expected and exceeded its pre-crisis level in June. However, the services sector was still 11.5 % below its February peak.

CONCLUSION: In the short term, the recovery of the US economy should continue, stimulated by strong demand and healthy household balance sheets. However, a lasting recovery requires a stronger upturn in sales in the service sector, which depends heavily on the further development of the epidemic.

International – Europa

Category	Indicator		Change			Q2-20	Q1-20	2019	2018	2015			
			Y-o-Y (*19- '20) Q2	Y-o-Y (*19- '20) Q1	Y-o-Y (*18- '19) Q4								
GDP	GDP	Index 2015=100	-13.94%	-2.63%	1.15%	98.2	110.9	114.2	112.5	105.1			
	GDP Components	Government Spending	Index 2015=100	-2.03%	0.83%	2.14%	106.4	109	109	107	102.4		
		Private Consumption	Index 2015=100	-15.08%	-3.10%	1.65%	93.5	106.3	110.1	108.4	102.1		
		Private Investment	Index 2015=100	-19.20%	0.85%	2.44%	100.6	119	120.5	116.8	104.3		
		Exports	Index 2015=100	-20.98%	-2.55%	1.60%	114.9	141.4	144.9	141.2	124.6		
		Imports	Index 2015=100	-20.11%	0.14%	3.18%	114.8	139.6	140.9	135.7	119.1		
Economy	GDP Drivers	Unemployment rate	in %	0.40 p.p.	-0.40 p.p.	-0.50 p.p.	7.1	6.5	6.7	7.2	10		
		Employment Costs	Index 2015=100	-	3.47%	3.02%	-	110.4	108.1	105.2	98.4		
		Industry Production	Index 2015=100	-22.95%	-4.81%	-1.79%	86.3	106.8	105.6	106.4	100		
		Services	Index 2015=100	-11.44%	-2.03%	2.73%	101.4	106	123.7	117.6	100		
		Inflation	Index 2015=100	0.70%	1.15%	1.61%	106.31	105.7	105.42	103.89	100		
		Real Estate Prices	Index 2010=100	-	5.48%	4.69%	-	123.83	-	114.75	100		
	Money Market	New Debt/GDP	in %	0.00 p.p.	0.00 p.p.	-	-	-	-	-0.7	-2.4		
		Core Interest Rate	in %	-0.10 p.p.	-0.10 p.p.	-0.10 p.p.	-0.5	-0.5	-0.5	-0.4	-0.3		
		Yield Govnt. Bond 1Y	in %	0.00 p.p.	-0.08 p.p.	0.03 p.p.	-0.62	-0.68	-0.67	-0.68	-0.27		
		Yield Govnt. Bond 30Y	in %	-0.55 p.p.	-0.75 p.p.	-0.89 p.p.	0.06	0.11	0.44	1.21	1.35		
		Prospects	Economy-Climate	Ifo-Business-Climate-Index	Index 2015=100	-	-	-22.90 IP	-	-	-10.1	25.125	16.15
				Ifo-Market-Prospects	Index 2015=100	-	-	-14.00 IP	-	-	-25.825	8.7	43.35
Economic Sentiment Indicator	Index accum.			-28.20 IP	-11.20 IP	-8.20 IP	74.9	94.5	103.2	111.5	102.9		
Consumption Climate	Index accum.			-11.47 IP	-1.80 IP	-1.27 IP	-18.5	-8.76	-6.2	-4.3	-7.2		
PMI	Index accum.			-0.20 IP	-3.00 IP	-5.10 IP	47.4	44.5	46.3	51.4	53.2		
EURO STOXX 50	Index accum.			-7.52%	-16.86%	25.23%	3234	2786	3748	2993	3287		
Overall Development	Trend												

Negative European economic growth has reached its trough in April - an economic recovery is already visible for May and June, so that a significant improvement is expected in Q3.

Almost all fundamentals plummeted in Q2. An exception to this is government spending, which declined only slightly. Unemployment was also rising again for the first time in a while, a trend that is likely to intensify in Q3. Inflation stagnated due to falling energy prices and overall subdued demand.


The economic recovery is developing very unevenly across Europe. Spain, France, Italy and the UK, which is no longer part of the EU, are particularly affected, with the economic downturn exceeding 18 % y-o-y.

France in particular, being Germany's second most important export nation, is thus a drag on the domestic economic recovery. China acts as a counterweight, as do Poland, the Netherlands and Austria, which are less affected economically.

The European economic area is supported by the ECB's bond purchase programs totaling 1,350 billion euros. According to the ECB, these programs will run at least until the end of 2021 and beyond until the SARS-CoV-2 crisis is overcome.

CONCLUSION: The European economic area reached its trough in Q2, supported by massive bond purchase programs of the ECB and national fiscal policy measures. The economic recovery is progressing slowly in some areas, which may also retard the recovery of the German economy in the long term.

Germany

Category	Indicator		Change			Q2-20	Q1-20	2019	2018	2015	
			Y-o-Y ('19- '20) Q2	Y-o-Y ('19- '20) Q1	Y-o-Y ('18- '19) Q4						
GDP	GDP	Index 2015=100	-11.47%	-2.30%	0.39%	94.68	104.74	106.95	106.35	100	
	GDP Components	Government Spending	Index 2015=100	0.99%	2.18%	3.07%	111.41	112.21	110.88	108.11	100
		Private Consumption	Index 2015=100	-13.17%	-2.83%	1.33%	92.64	103.51	106.65	104.96	100
		Private Investment	Index 2015=100	-13.85%	-1.33%	-4.48%	99.91	113.74	112.82	110.01	100
		Exports	Index 2015=100	-22.59%	-3.90%	0.91%	85.38	107.52	110.78	109.7	100
		Imports	Index 2015=100	-18.50%	-2.11%	0.85%	95.34	114.89	116.57	113.71	100
Economy	GDP Drivers	Unemployment rate	in %	1.30 p.p.	0.00 p.p.	0.00 p.p.	6.2	5.1	4.9	5	6.1
		Industry Production	Index 2015=100	-14.38%	-13.97%	-6.01%	86.9	89.9	101.25	105.95	99.725
		Services	Index 2015=100	-12.50%	-0.60%	2.14%	102.9	116.5	118.075	114.75	99.725
		Employment Costs	Index 2015=100	5.47%	4.20%	3.02%	113.8	111.6	109	105.8	98.8
		Inflation	Index 2015=100	1.23%	1.53%	1.53%	106.6	106.2	106	104.4	99.9
		Real Estate Prices	Index 2010=100	5.97%	6.51%	6.39%	170.3	168.5	162	152	123
	Money Market	New Debt/GDP	in %	0.00 p.p.	0.00 p.p.	-0.05 p.p.	-	-	1.4	1.9	0.9
		Core Interest Rate	in %	0.00 p.p.	-0.10 p.p.	-0.10 p.p.	-	-	-	-	-
		Yield Govnt. Bond 1Y	in %	0.02 p.p.	-0.08 p.p.	0.01 p.p.	-0.5	-0.5	-0.69	-0.7	-0.39
		Yield Govnt. Bond 30Y	in %	-0.35 p.p.	-0.64 p.p.	-0.61 p.p.	-0.68	-0.69	0.34	0.95	1.34
							-0.02	0.01			
Prospects	Economy-Climate	Ifo-Business-Climate-Index	Index 2015=100	-11.40 IP	-14.00 IP	-5.10 IP	86.3	86	96.3	101.4	100.9
		Ifo-Market-Prospects	Index 2015=100	-2.20 IP	-16.10 IP	-3.50 IP	91.6	79.7	93.8	97.3	100.9
		Consumption Climate GfK	Index accum.	-28.70 IP	-2.40 IP	-0.70 IP	-18.6	8.3	9.7	10.4	9.3
		PMI	Index accum.	0.20 IP	1.30 IP	-7.80 IP	45.2	45.4	43.7	51.5	53
		Dax	Index accum.	-1.69%	-14.95%	25.49%	12310	9935	13249	10633	10743
Overall Development	Trend										

In Q2 negative growth of the German economy reached double digits. Government consumer spending is the only area that registered growth. Exports even decreased by more than 20 %.

Unemployment increased significantly, higher labor costs can be explained by short-time working throughout the country. Inflation fell slightly, mainly due to falling energy prices.

According to the German Council of Economic Experts, the economy reached its trough in April, like the rest of Europe; since a recovery of the economy has been observed. Significantly better figures can therefore generally be expected for the third quarter. For the year, economic contraction is now expected to be 5.5 %. Consequently, figures for the business climate have improved, in some cases substantially, compared to the previous quarter.

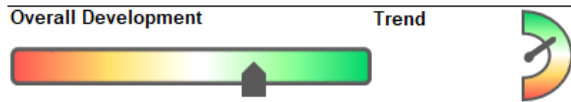
Nevertheless, SARS-CoV-2 is still associated with considerable uncertainties as long as no effective medical countermeasure is available.

Germany remains attractive for international capital thanks to its modern healthcare system and effective fiscal policy measures. Especially due to its proven crisis resilience, the German residential market is likely to be continuously positive affected in the future.

CONCLUSION: The German economy reached its trough in April. However, a complete recovery is strongly dependent on the economic development of its European neighbors and is generally associated with uncertainty. Internationally Germany can be increasingly considered a "safe haven" and continues to be attractive for international capital.

Residential Price Indices - Germany

Category	Indicator		Change	Change	Change	Q2-20	Q1-20	2019	2018	2015	
			Y-o-Y	Y-o-Y	Y-o-Y						
			(*19- '20) Q2	(*19- '20) Q1	(*18- '19) Q4						
Construction Living	Supply	CCI (Construction Cost Index)	Index 2015 = 100	2.97%	3.35%	3.77%	117.70	117.20	115.70	111.50	100.40
		Building Permissions (flats)	Absolute	7.04%	5.88%	3.83%	176,231	80,075	360,578	347,292	308,580
		Revenue Construction Industry	Index 2015 = 100	1.71%	10.41%	1.86%	124.63	99.16	121.11	116.36	99.99
		Completed Constructions (flats)	Absolute	-	-	-	-	-	255,925	251,338	216,727
		Construction overhang (flats)	Absolute	-	-	-	-	-	740,367	692,968	522,655
		Production Index Construction Industry	Index 2015 = 100	3.89%	7.36%	5.39%	129.73	132.20	124.86	117.58	99.68
	Demand	Loans Private HHs Living until 1 Year	in € Million	4.72%	0.06%	2.69%	7,760	7,055	28,969	28,342	30,055
		Loans Private HHs Living 1-5 Years	in € Million	-6.67%	-5.45%	-4.38%	5,412	5,168	21,623	21,179	24,635
		Loans Private HHs Living 5 until 10 Years	in € Million	5.66%	6.90%	1.39%	22,624	21,709	84,543	82,405	93,147
		Loans Private HHs Living > 10 Years	in € Million	9.02%	17.66%	22.26%	33,989	33,848	127,699	109,272	97,859
		Contracts Construction Industry (flats)	Index 2015 = 100	-2.51%	11.00%	7.13%	147	152	149.90	137	100
		Households	in Thousands	-	-	-	-	-	41,506	41,378	40,774
		Population	in Thousands	-	-	-	-	-	83,167	83,019	82,176
		Climate	IW Köln Situation Living	Index accum.	-40.20 IP	-17.60 IP	-19.30 IP	30.20	61.00	78.10	97.40
IW Köln Market-Prospects Living	Index accum.		8.80 IP	-12.60 IP	-22.80 IP	4.30	-10.20	-12.50	10.30	13.60	
IW Köln Real Estate Climate Living	Index accum.		-13.00 IP	-14.80 IP	-21.70 IP	16.90	22.60	28.40	50.10	42.90	
DIMAX	Index 2015 = 100		3.38%	-14.19%	11.38%	143.64	123.66	151.65	132.00	-	



The price trend for residential real estate remains generally very strong. Prices in metropolitan regions continue to grow sharply, both for owner-occupied apartments and for single-family houses. There seems to be a tendency for prices for single-family houses rising faster than for apartments.

The price increase for apartments is particularly pronounced in large cities and for single family houses in metropolitan and rural districts. The price growth of owner-occupied real estate is still positive but falls short in comparison to capital investments.

Although rents have risen disproportionately less than the purchasing prices, investors are increasingly trying to maximize their return with secure investments. Thus, the demand for low-risk investment products may increase in the long term even under SARS-CoV-2. Investment alternatives in the low-interest environment of a super-expansionary monetary policy are scarce.

Particularly under SARS-CoV-2, the shift from commercial real estate to residential real estate is becoming gradually more attractive. In recent years, investors such as pension funds and insurance companies have tended to increase the share of real estate investments in their portfolio. The willingness of institutional investors to particularly invest in residential property thus remains strong. Regarding core property, minor increases in loan interest are offset by lower yields on government bonds. In consequence financing conditions remain virtually unchanged.

CONCLUSION: The price increase in Q2 is particularly strong for apartment investments and single-family homes in metropolitan areas. Both can be explained by low interest rates and the lack of alternative investment opportunities. Nevertheless, SARS-CoV-2 may lead to a weakening of the steep price increase in the short term.

Residential Construction - Germany

Category	Indicator		Change	Change	Change	Q2-20	Q1-20	2019	2018	2015	
			Y-o-Y ('19- '20) Q2	Y-o-Y ('19- '20) Q1	Y-o-Y ('18- '19) Q4						
Price Indices	Living generic	Apartments Top-7	Index 2015 = 100	6.13%	7.79%	8.03%	154.00	150.30	147.60	135.20	100
		Apartments Large Cities	Index 2015 = 100	8.18%	9.29%	6.54%	137.60	135.30	127.90	120.60	100
		Apartments Urban Districts	Index 2015 = 100	6.44%	5.74%	7.35%	130.60	127.10	122.40	116.90	100
		Apartments Rural Districts	Index 2015 = 100	5.88%	6.23%	5.99%	135.00	130.40	127.10	121.10	100
		Single Family Houses Top-7	Index 2015 = 100	6.53%	9.59%	6.84%	151.70	148.50	140.80	130.80	100
		Single Family Houses Large Cities	Index 2015 = 100	7.33%	7.37%	6.84%	128.80	127.80	122.20	114.00	100
		Single Family Houses Urban Districts	Index 2015 = 100	6.30%	7.42%	6.94%	128.30	125.30	121.2	115	100
		Single Family Houses Rural Districts	Index 2015 = 100	8.92%	8.49%	6.15%	133.10	130.70	123.5	118.8	100
		Multiple Family Dwellings Top 7	Index 2010 = 100	2.34%	2.65%	2.74%	231.60	230.46	226.80	217.60	153.80
		New rents Top 7	Index 2010 = 100	1.65%	1.90%	1.99%	165.90	165.38	163.40	158.40	132.80
Living owner occ.	Living	Living	Index 2010 = 100	5.97%	6.52%	6.39%	170.30	168.52	162.00	152.20	123.30
		Owner occ. Apartments	Index 2010 = 100	5.57%	5.97%	5.11%	162.90	160.55	155.20	146.60	121.70
		Living Top 7	Index 2010 = 100	2.76%	2.93%	2.90%	223.40	221.91	218.00	209.30	150.00
		Apartments Top 7	Index 2010 = 100	4.54%	3.81%	3.19%	202.80	199.63	194.80	187.60	140.90
Living Global	Living Global	Case-Shiller U.S. National Home Price Idx	Index 2000 = 100	4.38%	4.25%	3.45%	218.58	213.72	209.69	202.63	172.22
		Real Residential Property Prices for China	Index 2015 = 100	-	-2.08%	-0.64%	-	107.17	108.75	109.45	94.26
		Real Estate Prices Europe	Index 2015 = 100	-	5.48%	4.69%	-	123.83	-	114.75	100
Overall Development		Trend									

In Q2 the overall economic downturn also had a noticeable effect on the German residential market, although to a relatively small extent. On the supply side, the production index in the main construction sector is rising at a lower rate than in previous quarters, while construction industry sales are only increasing moderately. The rise in construction costs is weakening slightly, which can be explained by lower energy and raw material prices.


On the demand side, the 2.5 % or 13.5 percentage point downturn in new construction orders compared with the previous quarter, represents a particular setback. This is even though the number of building permits issued rose by 7 % y-o-y. At the same time, the growth in loans to private households also slowed down slightly, particularly those with a term of more than 10 years, which account for the largest share of lending.

Overall, demand thus appears to have fallen somewhat more than supply. In the short term this could ease inflationary pressure on residential real estate at federal level to some extent. In the medium term, however, the current decline in new orders will be felt in residential construction, which could support further increases in residential property prices.

Supply and demand indicators are expected to recover in the coming quarters. A second full lockdown scenario seems rather unlikely even in the event of a significant increase in the number of SARS-CoV-2 cases.

CONCLUSION: The residential sector exhibits signs of a slowdown in Q2, although this development is relatively small. Demand seems to be more affected than supply, which may lead to less strong increases in residential real estate prices in the short term. In the medium term, however, a further expansion of the price increase can be expected.

International Investors

Indicator		Change Y-o-Y (*19- '20) Q3	Change Y-o-Y (*19- '20) Q2	Change Y-o-Y (*19-'18)	Q3-20	Q2-20	Q4-19	2019	2018	2015
Exchange Rates	Dollar/Euro (US)	8.37%	-1.60%	-1.89%	1.18	1.12	1.12	1.12	1.15	1.09
	Pfund/Euro (UK)	2.74%	1.77%	-4.89%	0.91	0.91	0.85	0.85	0.89	0.73
	Yuan/Euro (CHN)	3.11%	1.32%	-0.69%	8.02	7.92	7.82	7.82	7.88	7.06
	Yen/Euro (JPN)	5.13%	-1.58%	-3.11%	123.62	120.66	121.94	121.94	125.85	131.07
	Rubel/Euro (RUS)	26.00%	11.22%	-12.24%	89.15	79.63	69.96	69.96	79.72	80.67
	Lira/Euro (TUR)	45.71%	16.92%	10.32%	8.96	7.68	6.68	6.68	6.06	3.18
	Rupee/Euro (IND)	10.84%	4.36%	-3.31%	86.63	83.56	79.27	78.83	80.73	71.20
	Yuan/Dollar (CHN)	-5.28%	3.03%	1.67%	6.77	7.07	6.99	6.99	6.88	6.48
Overall Development										

The euro has appreciated against other currencies, in some cases substantially. Not surprisingly, the appreciation against the ruble and the Turkish lira remains strong. Pound sterling and the Chinese yuan also depreciated slightly, as did the Japanese yen.

It is particularly noticeable that the euro is appreciating significantly against the US dollar. Looking at it from this perspective, the appreciation is a concern since it is closely linked to prevailing deflationary pressures. According to the Economist, the financial markets currently expect an inflation rate in the EU of well below 2 % for the next ten years.

The last Fed meeting confirmed expectations that the US prime rate will remain very low for the foreseeable future in order to achieve the inflation target of 2% on average.

The GBP/EUR could come under pressure if the UK's decision to lift the short-time working scheme leads to a sharp rise in unemployment compared to its European neighbors, who want to create jobs well into 2021.

Supported by a weaker US dollar and the rapid recovery of the Chinese economy after the outbreak of the coronavirus, the yuan is strengthening against the dollar. With the further appreciation of the euro, however, the euro zone is losing its appeal for Chinese customers.

CONCLUSION: The euro is appreciating against all major currencies. German residential real estate is thus becoming significantly more expensive for international customers. In addition, the strong euro manifests deflationary tendencies in the euro zone, which, according to current expectations, could persist over the course of the next ten years.

Legend



- Positive Trend > +6% (qualitative*)**
- Positive Trend > +3% - +6% (qualitative*)**
- Static >= 0% - +3% (qualitative*)**
- Negative Trend < 0% - -3% (qualitative*)**
- Negative Trend < -3% (qualitative*)**

% = percent
 p.p. = percentage point
 IP = Index point
 Ø = average
 Y-o-Y = year over year

*Qualitative means here: Does a development influence the economy positively or negatively? Thus, an indicator with a negative sign can still have a positive influence and is therefore marked green despite a negative sign. The same applies to the opposite case.

** Government bonds, exchange rates & key interest rates and unemployment rate excluded

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