

Press release

Berlin, 12 August 2024

Property prices go into sideways movement

vdp index still in decline year on year; for the first time, slight increase again recorded quarter on quarter

The downward movement that has characterized property prices in Germany for just under two years was halted in the second quarter of this year. The property price index of the Association of German Pfandbrief Banks (vdp) achieved a score of 175.5 points, and thus was 0.5% above the level recorded in the first quarter of 2024. The index value was still lower (-3.8%) compared with the second quarter of the previous year. vdpResearch has calculated the vdp index each quarter since 2010 based – unlike other property indices – on an analysis of actual property transaction data collected from more than 700 credit institutions. In this way, the index tracks price developments on the overall German market for residential, office and retail properties.

Like the overall index, the index for **residential property prices** recorded a slight increase of 0.5% quarter on quarter (Q2 2024 against Q1 2024). Year on year (Q2 2024 against Q2 2023), on the other hand, residential property prices were down by 2.9%.

A more significant price correction (-7.4%) was again seen year on year in **commercial property prices**, which is to say prices for office and retail properties. However, they likewise rose slightly (+0.4%) from the first to the second quarter of this year.

“Achievable returns are apparently again in keeping with investors’ expectations.”

Jens Tolckmitt

“After property prices in Germany have fallen persistently for almost two years, we are now seeing signs that the market is calming down. Prices appear to have adjusted to such an extent in the meantime that the achievable returns are in keeping with investors’ expectations in the new interest rate and valuation environment,” vdp Chief Executive Jens Tolckmitt stated. Nevertheless, he does not think property prices will rise appreciably in the short term. “We expect the emerging sideways movement to continue for several quarters. Uncertainty factors with regard to future price developments are the current, further heightened risk of geopolitical conflicts spreading and the subdued economic activity in Germany at present.”

Residential properties: rents under new contracts for multi-family houses continue to rise

For the first time since the second quarter of 2022, residential property prices did not fall quarter on quarter, but instead proved to be practically stable, rising slightly by 0.5%. Here, prices for multi-family houses and owner-occupied housing went up by 0.5% in each case between the first and second quarter of 2024.

Prices in both sectors also followed an almost parallel trajectory year on year, albeit with a negative sign. Whereas prices for multi-family houses fell by 2.8% compared with the second quarter one year earlier, prices for single-family houses and condominiums dropped by 3.0%. Both these developments contributed to a 2.9% decrease in residential property prices overall between the second quarter of 2023 and the second quarter of 2024.

Rents under new contracts for multi-family houses continued to rise in the second quarter of this year, increasing by 6.1% year on year and 1.4% quarter on quarter. Returns on rental properties as measured by the vdp index for cap rates rose by 9.2% between the second quarter of 2023 and the second quarter of 2024. With that, growth in returns slowed down somewhat for the third consecutive quarter (Q1 2024: +10.8% / Q4 2023: +12.9% / Q3 2023: +13.5% --> compared with the corresponding quarter one year earlier in each case).

“Only policymakers can solve the dilemma of the growing housing shortage.”

Jens Tolckmitt

“The housing shortage in Germany is currently intensifying from month to month, especially in the metropolitan regions, with the inevitable consequence that rents continue to rise. This poses a growing social challenge. Only policymakers can solve this dilemma. Although the recently presented draft amendment to the Federal Building Code points in the right direction, it will not be enough to curb the rising shortage of housing space,” Tolckmitt commented. He explained that an even more extensive raft of wide-ranging measures is needed. In addition, the obvious conflict of objectives between the creation of affordable housing and the costly sustainable transformation of the building stock must be resolved. “Measures to facilitate the affordability of housing are being thwarted by the simultaneous demand that strict and cost-intensive sustainability requirements for buildings are met.”

Housing in top 7 markets: prices in Cologne are most resilient

Residential property prices in Germany's top 7 cities fell slightly less heavily (-2.5% on average) than in Germany as a whole (-2.9%) year on year. The individual rates of change varied from -1.6% in Cologne to -4.7% in Munich.

Compared with the first quarter of 2024, residential property prices developed unevenly in Germany's major cities. Whereas they contracted slightly in Düsseldorf (-0.5%), Munich (-0.4%) and Stuttgart (-0.2%), they rose in Frankfurt am Main (+0.5%), Hamburg (+0.6%), Cologne (+1.1%) and Berlin (+1.2%). On average, prices across all top 7 cities were up by 0.7% compared with the immediately preceding quarter.

Once again, Berlin experienced the highest year-on-year increase in rents under new contracts for multi-family houses (+6.9%), followed by Frankfurt am Main (+5.1%) and Munich (+4.5%). Across all top 7 cities, growth in rents under new contracts amounted to 5.5% on average.

The highest increase in returns (+9.7%) was again recorded in Munich, followed by Berlin (+8.9%), Stuttgart (+8.5%) and Düsseldorf (+8.4%). The average growth in returns across Germany's top 7 cities came to 8.3%.

Commercial properties: price level maintained quarter on quarter

In the quarter under review, the downturn again affected the commercial property market more strongly than the residential property market. Compared with the second quarter of 2023, commercial property prices fell by 7.4%, whereby the drop in prices for office properties (-7.9%) was more pronounced than the price correction for retail properties (-5.9%).

By contrast, commercial properties were able to maintain their price level quarter on quarter. The rate of change between the first and second quarter of 2024 was +0.5%, and accounted for growth in office property prices (+0.3%) and retail property prices (+0.7%).

As measured by the vdp cap rate index, office and retail properties again generated considerable increases in returns in the quarter under review. Year on year, returns for office and retail premises rose by 10.9% and 9.6% respectively. The increase in rents under new contracts for retail properties (+3.1%) was somewhat higher than for offices (+2.1%).

Outlook: potential for further setbacks limited in the meantime

"The situation in the commercial property market remains tense. Transactions and turnover are still at below-average levels. Nevertheless, we are seeing growing signs that the downturn in the commercial property market is losing momentum," Tolckmitt pointed out. He added that future price developments will depend on the extent to which the stagnation the

German economy has now entered combined with the gloomy sentiment among businesses weigh on the real estate industry.

“There are signs that the difficult situation is easing.”

Jens Tolckmitt

In conclusion, the vdp Chief Executive looked to the future: “After a downturn lasting two years, the potential for further setbacks now seems to be limited.” Tolckmitt added that, given the current external risk factors such as geopolitics and economic growth, the possibility of renewed setbacks in the coming quarters cannot be entirely ruled out. However, the already discernible sideways movement in property prices will manifest itself in the trend over the next year – more quickly for residential properties than for commercial properties. “It is still much too early to declare a trend reversal, but there are signs that the difficult situation is easing.”

About the vdp property price index

The Association of German Pfandbrief Banks (vdp) publishes quarterly rent and price indices showing trends on German residential and commercial property markets, based on transactions that have taken place. Prepared by the analyst firm vdpResearch, the index is used by the Deutsche Bundesbank as part of its property price monitoring activities. Over 700 credit institutions operating in the German financial sector supply transaction data (purchase prices and rents actually achieved) on their real estate finance business, and it is these data that form the basis of the index.

Information on developments in the respective sub-markets as well as all index data on the individual vdp property price indices (2003-2023) may be found in the relevant publication and are also available as raw data at www.pfandbrief.de. Moreover, vdpResearch provides a detailed assessment of the regional top 7 housing markets, including all sub-segments (owner-occupied housing and multi-family houses), at www.vdpresearch.de.

Annex

vdp property price indices Q2 2024

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