

Press release

Berlin, 10 November 2023

Property prices continue to slide

vdp index: Residential property prices down 1.7% since second quarter

The price adjustments persisting in the German property market for the past year continued in the third quarter of 2023, with a reduction of 1.7% on average in residential and commercial property prices compared with the previous quarter. In a year-on-year comparison, this represented a decline of 7.1% versus the third quarter of 2022. The property price index of the Association of German Pfandbrief Banks (vdp) currently stands at 179.2 points (base year 2010 = 100 points), 8.0% lower than its high of the second quarter of 2022 (194.8 points). The vdp index has been compiled by vdpResearch every quarter since 2010 and, unlike other property market indices, is based on an evaluation of actual property transaction data from over 700 credit institutions, providing coverage of the entire German market quarter by quarter.

Residential property prices fell by 1.7% quarter on quarter in the third quarter of this year (Q3 2023 vs Q2 2023), and by 6.3% year on year (Q3 2023 vs Q3 2022). Compared with the peak level of mid-2022, prices for residential property in Germany have fallen by 7.0%.

Commercial property prices were down by 2.2% quarter on quarter and by 10.3% year on year in the third quarter of 2023. This puts the decline in these prices since their peak of the second quarter of 2022 at 12.3%. Commercial property prices had increased by 55.4% between 2010 and mid-2022.

**“The price correction still applies to all asset classes.
A market recovery has yet to materialise.”**

Jens Tolckmitt

“The price developments seen in the first half of this year continued in the third quarter. The price correction still applies to all asset classes, although to a much lesser extent for residential property than for commercial property,” said vdp Chief Executive Jens Tolckmitt. “A market recovery has yet to materialise.”

Year-on-year change in prices (Q3 2023 compared with Q3 2022):

Residential/commercial properties overall:	-7.1%	Commercial properties:	-10.3%
Residential properties in Germany:	-6.3%	- Office properties:	-10.6%
Residential properties in the top 7 cities:	-5.7%	- Retail properties:	-9.3%

Quarter-on-quarter change in prices (Q3 2023 compared with Q2 2023):

Residential/commercial properties overall:	-1.7%	Commercial properties:	-2.2%
Residential properties in Germany:	-1.7%	- Office properties:	-2.5%
Residential properties in the top 7 cities:	-1.3%	- Retail properties:	-1.2%

Residential property: increasing rent under new contracts and returns

The decline in residential property prices by a quarterly 1.7% (Q3 2023 vs Q2 2023) and an annual 6.3% (Q3 2023 vs Q3 2022) was the result of similar price developments for multi-family properties (-1.7% and -6.8%, respectively) and owner-occupied properties (-1.6% and -5.8%, respectively). There was little difference between the two subcategories of owner-occupied properties (single-family houses and flats).

“A growing housing shortage is looming.”

Jens Tolckmitt

The annual rates of change in rent under new contracts in multi-family properties were similar to the preceding quarter at +5.8% (+6.2%). “The increasing housing shortage and resulting excess demand is reflected in further rising rents. If housing construction does not pick up quickly in Germany, a growing housing shortage is looming,” said Tolckmitt. Returns on multi-family properties shot up again in the third quarter of this year. Measured against the vdp cap rate index, returns rose by 13.5% year on year, similar to the quarter-on-quarter rate (+14.2%).

Top 7: Berlin determines development once again

The decline in residential property prices was somewhat less pronounced in the top 7 cities than in Germany as a whole in the third quarter of 2023. Compared to the immediately preceding quarter, prices in the major cities fell by an average 1.3%, with few regional differences; the rates of change for all top 7 cities were between -1.0% and -2.0%. In a year-on-year comparison (-5.7% on average), the price drop was most pronounced in Frankfurt am Main (-9.1%), with the smallest decline in Berlin once again (-4.7%). Prices in Düsseldorf, Hamburg, Cologne, Munich and Stuttgart fell by between 5.1% and 6.8%.

Rent under new contracts in multi-family properties increased by an average 5.9% year on year in the top 7 cities, and returns by 11.9% in the same period.

These increases were shaped by Berlin and Munich, which had the highest growth rates among the major cities in both rent under new contracts (8.7% and 5.2%) and returns (13.9% and 12.9%).

Commercial properties: larger price drop for offices than retail properties for first time

Declining prices for both retail and office properties contributed to the commercial property price drop of 2.2% on a quarterly basis and 10.3% in annual terms in the third quarter. Retail property prices fell by 1.2% and 9.3%, respectively, while office property prices dropped by 2.5% and 10.6% – the first time the decline in office property prices has exceeded that of retail property prices since 2009.

Returns on **retail properties** measured against the cap rate index increased by 1.7% quarter on quarter and 9.1% year on year in the third quarter of 2023. There was a slight increase for the third consecutive quarter in rent under new contracts, which has risen by 0.4% since the second quarter of this year. In a year-on-year comparison, it declined slightly, by 1.0%.

“Uncertainty remains high throughout the commercial property market.”

Jens Tolckmitt

By contrast, there was a plus in rent under new contracts in the **office property market**, with quarterly growth of 1.1% and annual growth of 3.9%. Office property returns also made significant climbs, with rates of change of 3.7% and 16.2%, respectively.

“Adjusting to the changed return environment is essential in order to rekindle investor demand for office and retail properties,” said Tolckmitt. He believes that nobody can seriously predict at present when the two markets will recover properly, because the uncertainty in large parts of the commercial property market is still too high. This applies in particular to the office segment in light of discussions on working from home and ESG requirements. Stabilisation cannot be expected in the commercial property market until the market situation calms down for the long term, i.e. when conditions such as interest rates permit reliable planning. The current slowdown in construction activity could also potentially contribute to this.

Outlook: calmer waters ahead for residential property market

Tolckmitt said that in light of developments in the third quarter of 2023, the German property market still appeared strained and that further price drops were likely. “The commercial property market is still characterised by internal and external uncertainty that exerts pressure on capital values. However, the shortage of supply inextricably linked to the current subdued construction

activity will likely counter this. We continue to expect declining prices for commercial properties for the next few quarters, as there is clearly no price balance yet in sight,” said the vdp Chief Executive.

“There will be no sharp price declines on the residential property market in the near future either.”

Jens Tolckmitt

His view of the prospects for the residential property market were more positive, due among other reasons to stabilising financing applications at a low level and the general excess demand for housing. “The residential property market will soon be entering calmer waters. There have not been any sharp price declines thus far, and based on what we currently know, there are unlikely to be any for some time.”

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 Q3 2023

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