

Annual Report 2021

# The real estate market in a state of constant change

Previous restrictions during the pandemic have meant change in many areas of life, including in the demand for real estate and its use. This now seems to have been confirmed – with implications for all asset classes.

## New working models are transforming the office sector

The question as to what extent mobile working will remain after the pandemic is not only a concern for many companies, but also for the real estate industry. Some employers have already collected data and worked out sensible and feasible solutions for their companies, together with their employees, that will benefit both sides. For many employees, not having to commute to the office – even if only for a few days a week – should make it much easier to maintain a work-life balance. Some companies are hoping to save money by not needing to use as much office space in expensive metropolitan areas and by being able to implement other, more modern, space-intensive solutions.

However, this does not necessarily have to mean the “end” of the office as a workspace, rather, it means that the office must adapt to the changing requirements. Ultimately, there is still a great want and need among employees to directly exchange ideas with one another, face to face. Good ideas often stem from face-to-face conversations with others, whether this be in the kitchen, at the coffee machine or while chatting in the corridor. It is also difficult

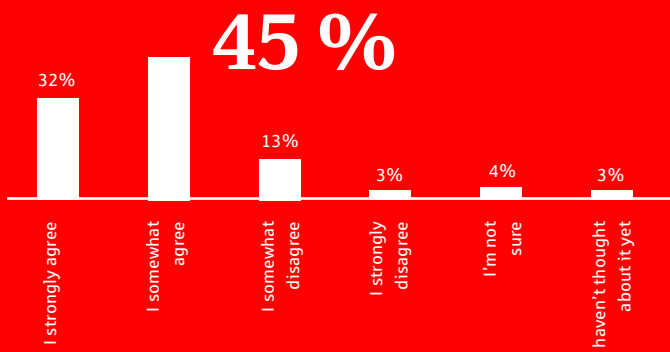
to imagine training employees and junior staff whilst all those involved are working from home. The office will therefore remain a cultural backbone and focal point of the company and will continue to be of great importance in the future, even if mobile working does indeed establish itself as a viable working model. Offices will change according to the requirements and behaviour of their users, such as a growing need for more collaborative workspaces and meeting points, more areas for exchange, fewer individual workstations and more desk-sharing. The demand for service and quality will increase. High-quality offices in good locations will remain a successful asset class.

## The structural change in city centres will continue – retail will be a world of experience

In Germany, order volumes have risen steadily since the start of the pandemic. Consequently, this had an impact on brick-and-mortar shops, which also suffered a heavy loss of sales due to the hygiene regulations in force. Many retailers are trying to downsize to reduce rental expenditure, and quite a few have even had to close their shopfronts.

### Additional services such as click & collect and repair services are becoming more important in brick-and-mortar shops.

More details on the results of the Trendbarometer survey can be found



Source: Trendbarometer, edition 2 2021

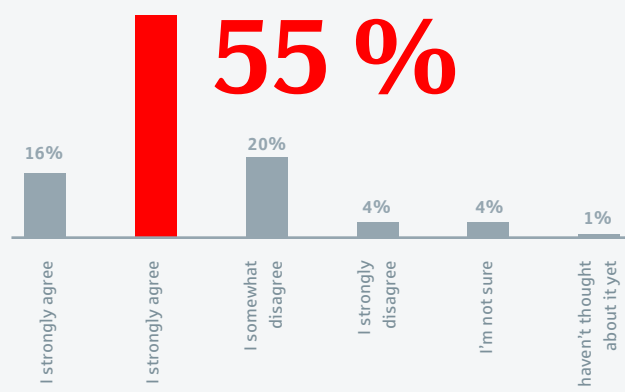


“When it comes to retail, there is no one-size-fits-all approach. In this sector, you have to make strong distinctions and keep an eye on long-term developments”, explains Sascha Klaus, Chair of the Board of Management of Berlin Hyp. “However, the pandemic is magnifying the effects felt in inner-city shopping streets and shopping centres and it’s now becoming even more visible just how much pressure this model is under. This doesn’t mean that brick-and-mortar retail is dead, however. People will still want to enjoy the classic shopping experience that includes looking at products, touching them and then taking them home straight after.

At the same time, an increase in mixed-use properties could contribute to making retail properties more resistant to crises such as this. Mixed-use properties combine various functions and lifestyle aspects within a small space. Such a mixed use of properties for residential, work and leisure purposes is in line with modern urban development. The use of office space will change as digitalisation increases and people make the switch to mobile working. There are many constraints when it comes to housing construction in Germany, and retail is being confronted by an ever-expanding e-commerce sector, boosted by the pandemic and the closure of many stores for months. Single use properties may therefore prove to be economically inefficient. On the other hand, mixed-use properties are used for various purposes at all times of the day, which spreads out the risk. Although the individual elements are still subject to the market cycles of their respective use type, there is less of an impact on the entire property. As a result, such spaces always remain attractive, can be rented out more quickly and counteract cash flow disruptions by significantly decreasing vacancy rates.

**There will be no more “retail-only” properties in the future. With few exceptions, retail properties are only sustainable as mixed-use properties**

More details on the results of the Trendbarometer survey can be found [here](#)



Source: Trendbarometer, edition 2 2021

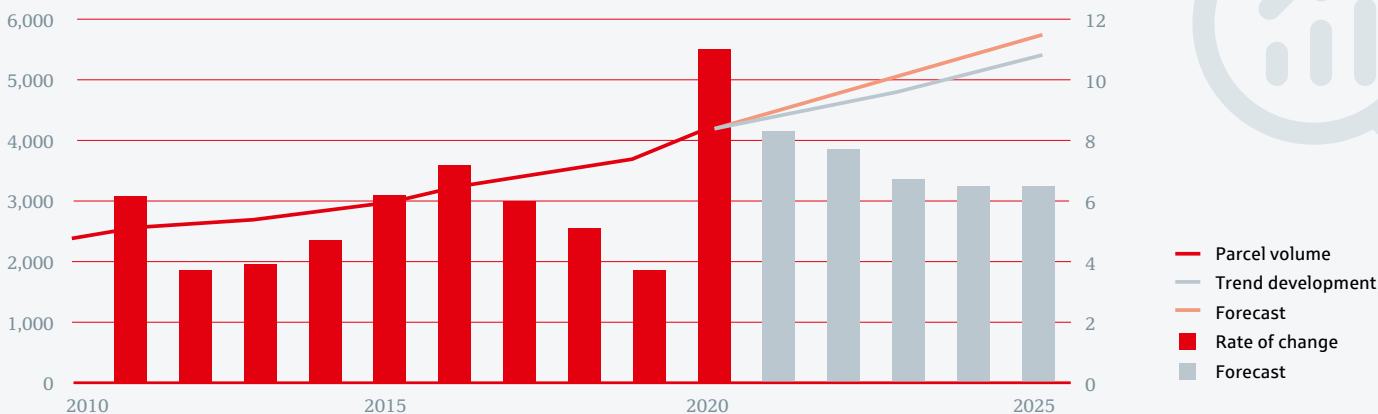
## Logistics: German purchasing habits placing new demands on inner-city logistics – multi-storey logistics real estate as a sustainable approach

The demand for logistics properties amongst investors continues strong. The COVID-19 pandemic has given online retail another boost. This has meant an enormous volume of parcels which must be delivered within two to three days of

being ordered to achieve a high level of customer satisfaction. Predominantly transported by road, this is leading to a rapid increase in last mile logistics and a strain on inner-city infrastructure.

### Shipping volume and forecast development in the German KEP\* market

In millions (left scale), rate of change in % (right scale), 2010 to 2015, from 2021 forecast



Source: BIEK, KEP study 2021

\*KEP = courier, express and parcel services

The logistics real estate sector is likely to face considerable regulatory challenges in the course of implementing Germany's climate targets and the Climate Agreement as, due to their sheer size, the construction of logistics facilities is often very space-intensive and their operation, in turn, is very energy-intensive. Minimizing the energy and space requirements for this asset class will be one of the biggest challenges in the coming decades. Modern logistics concepts such as multi-storey logistics centres in locations close to city centres can help to make the transport of goods more resource-friendly by means of less land sealing, shorter transport routes, less traffic congestion and lower greenhouse gas emissions. A shift in logistics concepts is conceivable if changing pricing structures send a warning to the real estate market that land is a scarce and valuable resource. Otherwise, policies can also act as a catalyst by reducing new land sealing by restricting the approval of

building permits for greenfield developments. Vertical logistics certainly offers advantages for banks.

“Due to its design, it is ideal for mixed tenancy that can mutually benefit from one another. For us as a financing bank, this model is less susceptible to emerging crises than single-tenant properties”, explains Teresa Dreö-Tempsch, Chief Market Officer of Berlin Hyp. “We as a real estate financier see it as our responsibility to provide incentives for innovations in the industry that are making a sustainable contribution by optimising space, shortening delivery routes or transforming buildings.”

## Housing as a basic need is coming out of this crisis a winner – but affordable housing is in short supply



The residential asset class doesn't seem to have been affected by the crisis. The support measures initiated by the German government and short-time working compensation have been able to prevent major defaults in rental income. There will always be a need for living.

The increasing popularity of mobile working is intertwining our work and leisure time more and more intensively and is also leading to a change in requirements in residential spaces. Many employees would now like to have a separate study so that they can work undisturbed and some, no longer faced with the prospect of having to travel to the office every day, now want to fulfil their wish of living in the country. As housing in cities is becoming more and more expensive, rural areas are emerging as

an affordable option, especially for young families. Nevertheless, rents are rising in the cities, and affordable housing is scarce. As a result, many people simply cannot afford to move to larger apartments and end up staying in the same smaller apartment and simply coming to terms with these circumstances. On the other hand, it does not make sense for older, single people to give up their large family apartment and look for a smaller one, as this will cost them more in many cases. The only remedy here could be to increase new construction. However, this is restricted by a shortage of building land, construction workers and construction materials as well as long official processing times.

Affordable housing is of course also an issue when it comes to implementing ESG goals. It is estimated that one third of the global CO<sub>2</sub> emissions can be directly or indirectly attributed to buildings and their operation. With this in mind, there is particularly great potential in the area of existing properties – new buildings are in any case at a high energy level. However, the new building has a sizeable CO<sub>2</sub> footprint due to its production and this shows that new construction alone cannot be the solution.

However, it takes a very long time for any measures taken to have a broad impact, especially in the area of existing properties. The transformation and conversion to low-emission or even zero-emission energy is complex and cost-intensive. This often requires lengthy negotiations with tenants and the question of how to apportion costs offers much room for discussion. Solutions must be found here to make energy-related building refurbishments of existing buildings more socially acceptable. Even those with lower incomes must also be able to afford renovated apartments. Sustainability only makes sense if it is affordable and not a luxury for a few. This is a major task that can only be tackled with the consensus of all stakeholders.

Any use of the generic masculine form naturally also includes individuals of all other genders.