

Trendbarometer 02/2019

Trends in the Real Estate Industry Put to the Test

The expert survey by Berlin Hyp AG

Know tomorrow's trends today.

What trends are driving the real estate market? Will there be a renaissance of urban production and logistics and will real estate companies invest enough in digitisation? And what is the use of the rent cap in Berlin?



More than 500 real estate experts took part in our online survey in June 2019 and commented on their expectations in real estate for the coming year. The survey provides an assessment of the German real estate market in the current real estate year and a perspective for further development.

Conclusion

Trendbarometer 2019

The **attractiveness** of the German real estate market is unabated

Interest rates again: interest rates will be the determining factor of the real estate market in the coming 12 months

New lending remains at a high level

The **rent cap** is not an instrument for social justice nor is it a model for other big cities

The only way to combat housing shortages is to build, build, build

Small and medium-sized towns benefit from urbanisation

Smart building technologies will revolutionise the construction industry

The **real estate sector** is unchanged as 'digital dinosaur'

Office concepts are changing

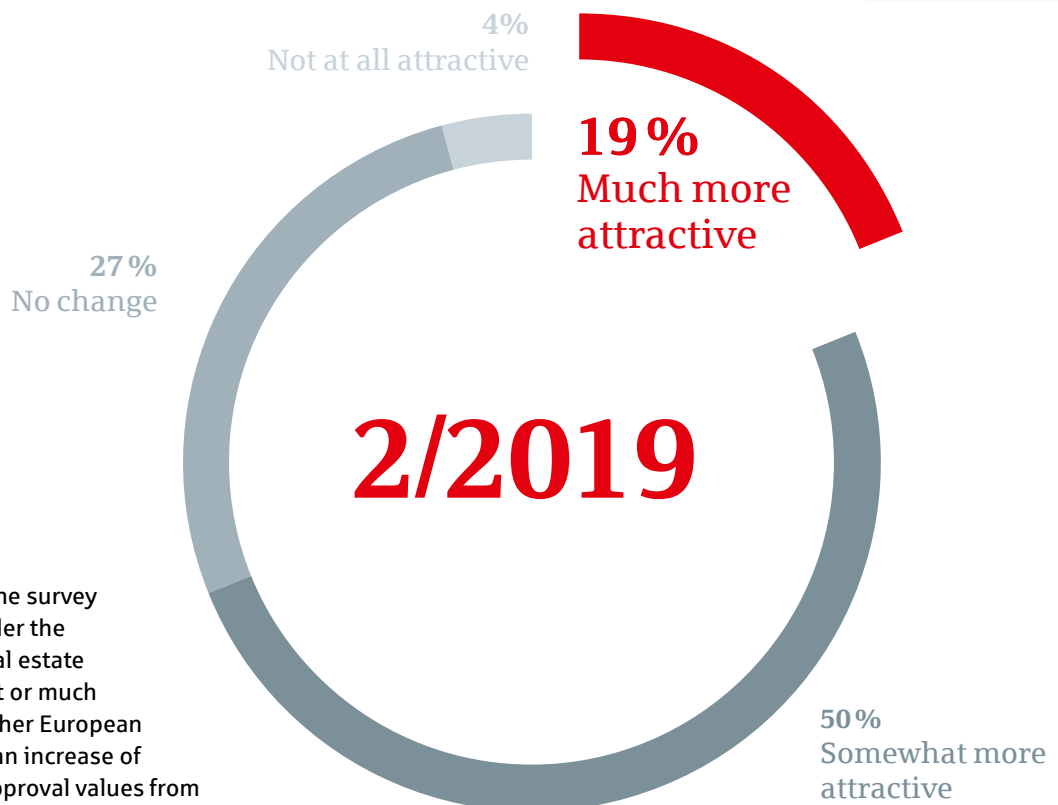
The Survey Results in Detail



How do you currently assess the attractiveness of the German commercial real estate market compared to the rest of Europe?

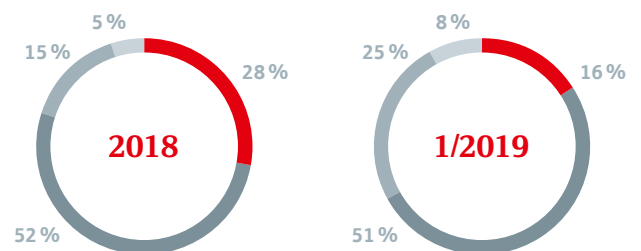


Attractiveness of the German commercial real estate market unabated.



Sixty-nine per cent of the survey participants still consider the German commercial real estate market to be somewhat or much more attractive than other European countries. This means an increase of 2% compared to the approval values from January 2019 (67% somewhat or much more attractive) and a decrease of 11% compared to the values from 2018. The decline is also striking among those respondents who do not consider the German commercial real estate market to be attractive at all.

Apparently, the German commercial real estate market is immune to all downward trends. Although the excess demand in some top cities is currently reflected in the lack of suitable products, the German commercial real estate market is still extremely robust. However, there are few equally attractive alternatives across Europe.



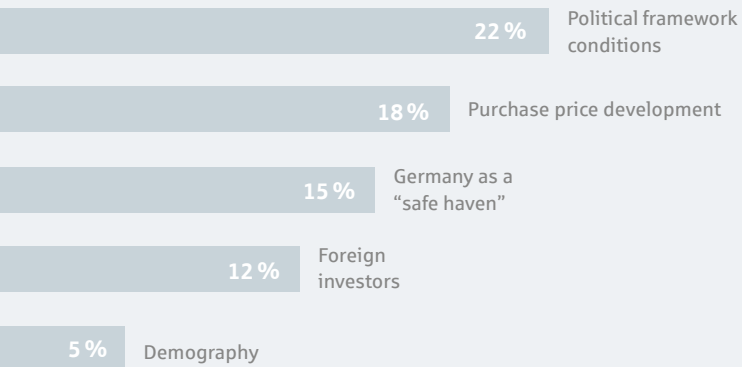
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Please name up to 3 factors that will shape the German real estate market over the next 12 months.

Interest rate levels, political framework conditions and purchase price development will be key influencing factors in the coming real estate year.

28 %

Interest rate level

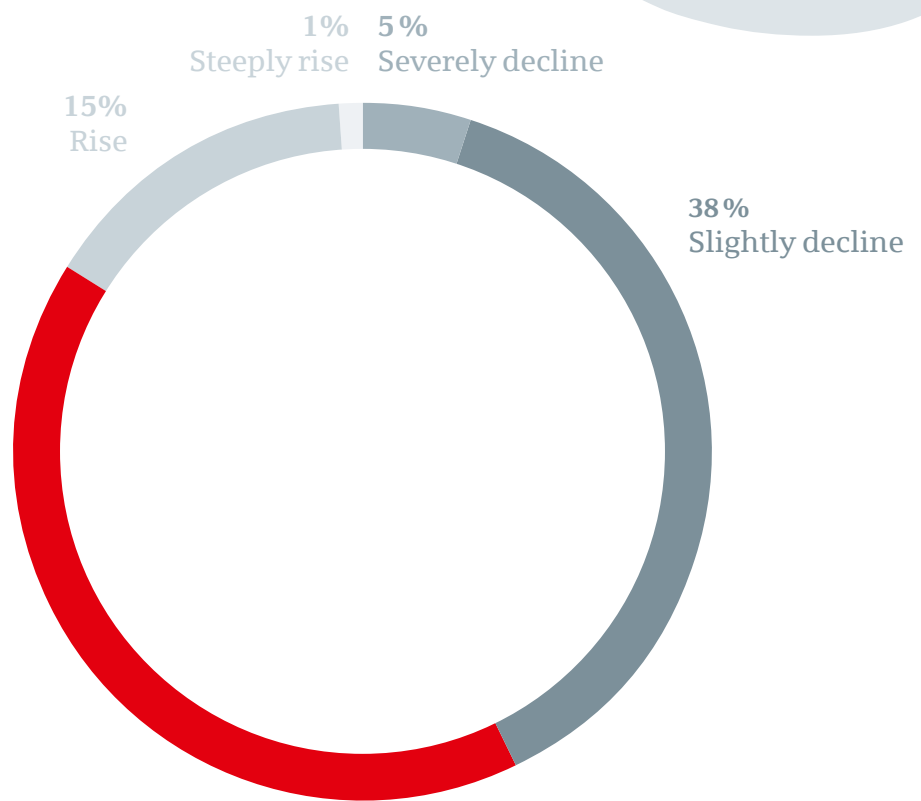


The decisive factor is clearly the interest rate level. Although no one is seriously expecting any rate hikes in the coming 12 months, 28% of the survey participants still consider interest rates to be the most important factor for the commercial real estate market.

According to the survey participants, other determining factors are the political frameworks (22%), the purchase price development (18%), Germany as a "safe haven" (15%), and foreign investors (12%). Particularly striking and in line with the trend of the January 2019 survey is that demography – as one of the "megatrends" of recent years – is in sixth place with only 5% approval.

How will margins in commercial real estate financing change over the next 12 months?

3



Are margins on the decline?

According to 41% of survey participants, margins will stagnate in the next 12 months. Of those who participated in the survey, 43% expect margins to fall slightly to sharply, and only 16% expect them to rise.

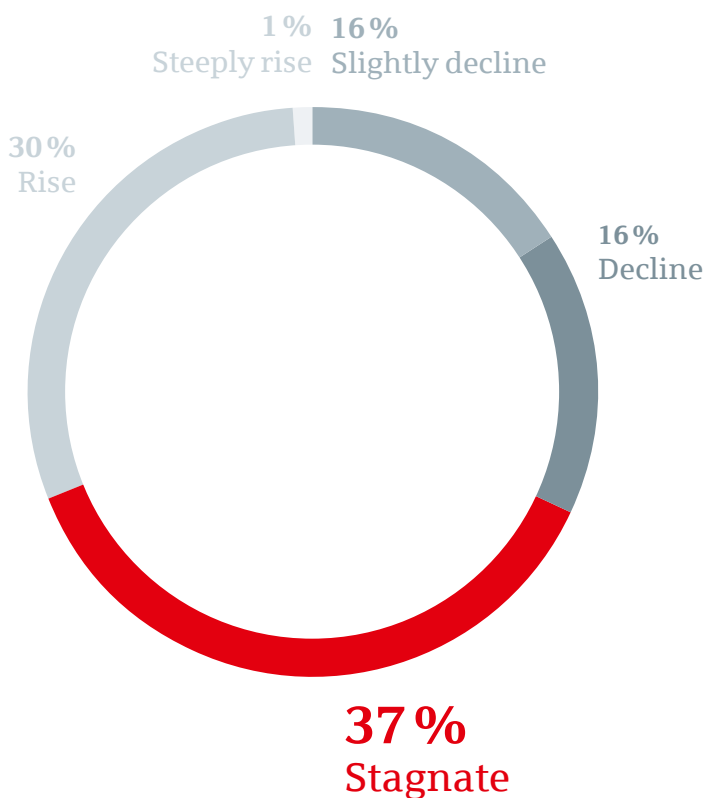
41 %
Stagnate

So margins are on the decline? But who can afford that? Wouldn't unit costs have to establish themselves as the lower limit for real estate financiers to be able to operate adequately? But as long as the capacity for endurance has not yet been exhausted, this discussion will be had later down the line.

4



How will new lending in commercial real estate financing develop over the next 12 months?



Is everything different? New lending remains at a high level.

The result is balanced: for 37% of our experts, new lending will stagnate. An increase in new lending is expected from 31% of survey participants, whereas 32% expect a decrease.

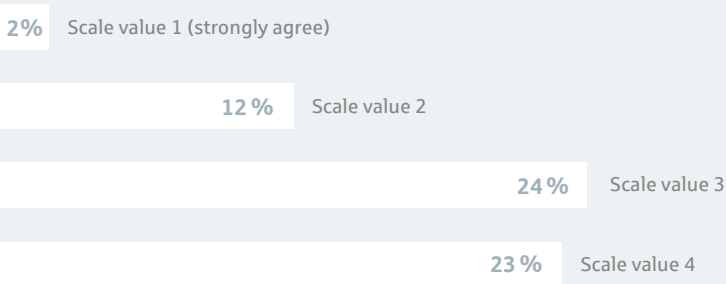
Overall, the outlook is solid for the real estate year to come. The strong pressure to invest and the good economic situation in Germany seemingly continue to be reflected in stable new lending figures and there are still sufficient real estate investments available. Only the tightening of global trade restrictions and a disorderly Brexit could affect the commercial real estate market in 2020.

Will the planned rent cap lead to improved social justice in Berlin? Please give your rating on a scale of 1 to 5 – with 1 being strongly agree and 5 being strongly disagree.

More social justice – but not with the rent cap!

A clear result: 39% of the survey participants do not see the rent cap as a suitable instrument for promoting social justice. Only 2% would clearly answer this question in the affirmative.

The discussion was controversial and emotional. Nevertheless, the fact remains; the demand for living space is increasing in growing cities. If the offer does not grow with it, then the rents will rise. This is simple logic. There is a lack of residential space in almost all major cities. According to current estimates, there is a demand in Berlin for more than 130,000 additional apartments. This is offset by an offer that is far too small; the additional annual demand is currently insufficiently covered by new construction – in Berlin by less than three-quarters of it. Therefore, we have to build more.



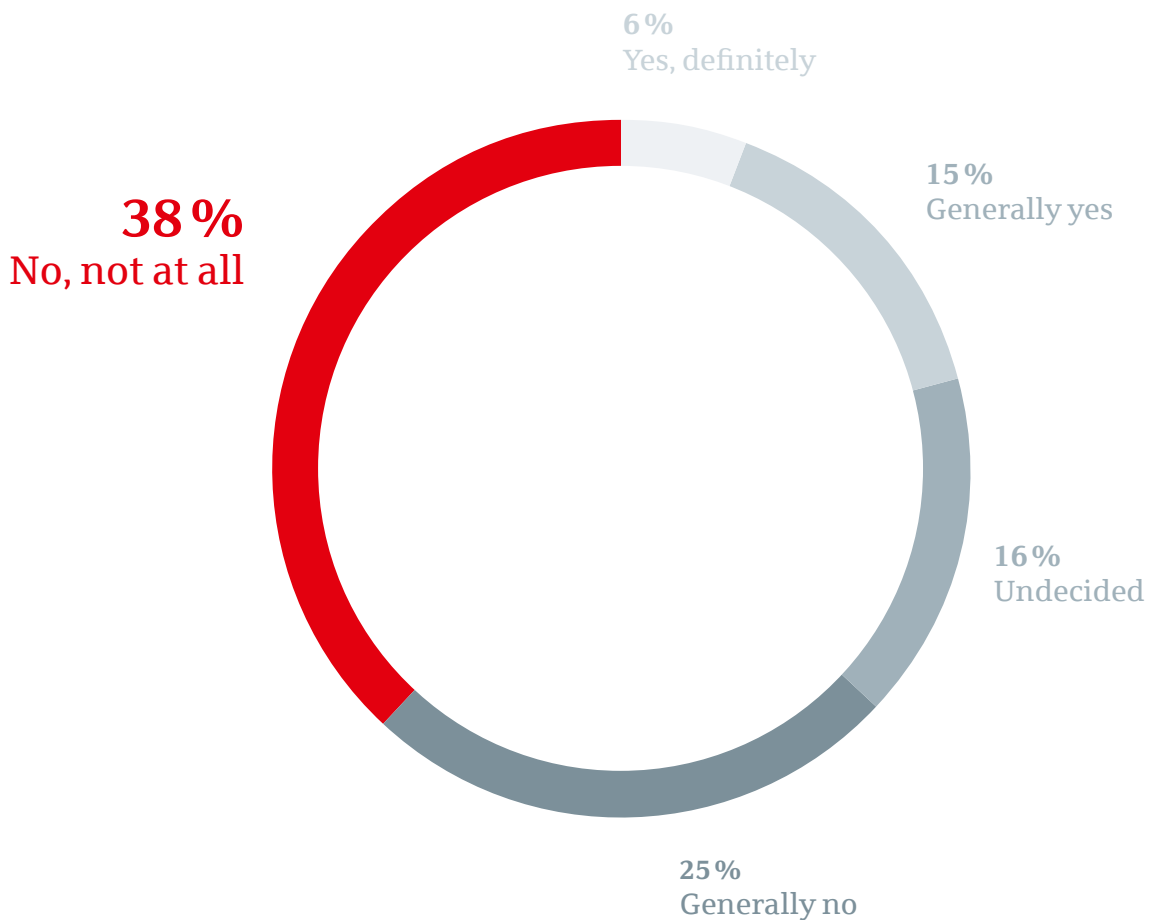
39%
Scale value 5 (strongly disagree)

6

Would the Berlin rent cap also be a suitable model for other German cities?

No rent cap please!

According to the survey participants, the Berlin rent cap is not particularly popular in Germany. A total of 63% of real estate experts do not consider it a suitable model for other major German cities. Sixteen per cent are undecided and 21% could imagine the rent cap in other cities, too.



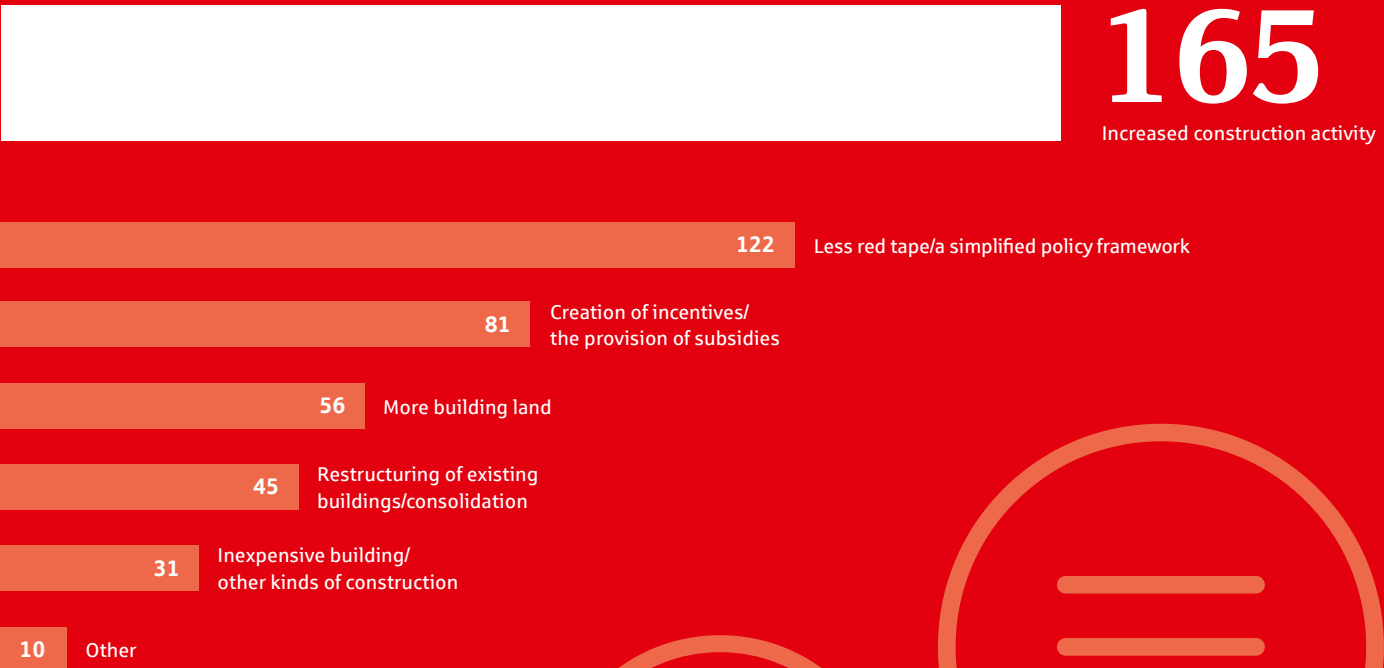
7

In your opinion, what can lead to the creation of more residential space?

The only way to more residential space is to build, build, build!

According to the real estate experts surveyed, the best method of creating more residential space is increased construction activity. This was mentioned 165 times. Also on the wish list is less red tape and a simplified policy framework (122), as well as the creation of incentives and the provision of subsidies (81). "More building land" was mentioned 56 times, "restructuring of existing buildings/consolidation" 45 times and "inexpensive building/other kinds of construction" 31 times.

More residential space can therefore only be created through increased building activity, but also through the conversion and consolidation of existing plots. There are no limits to creativity, as long as the bureaucracy plays its part.



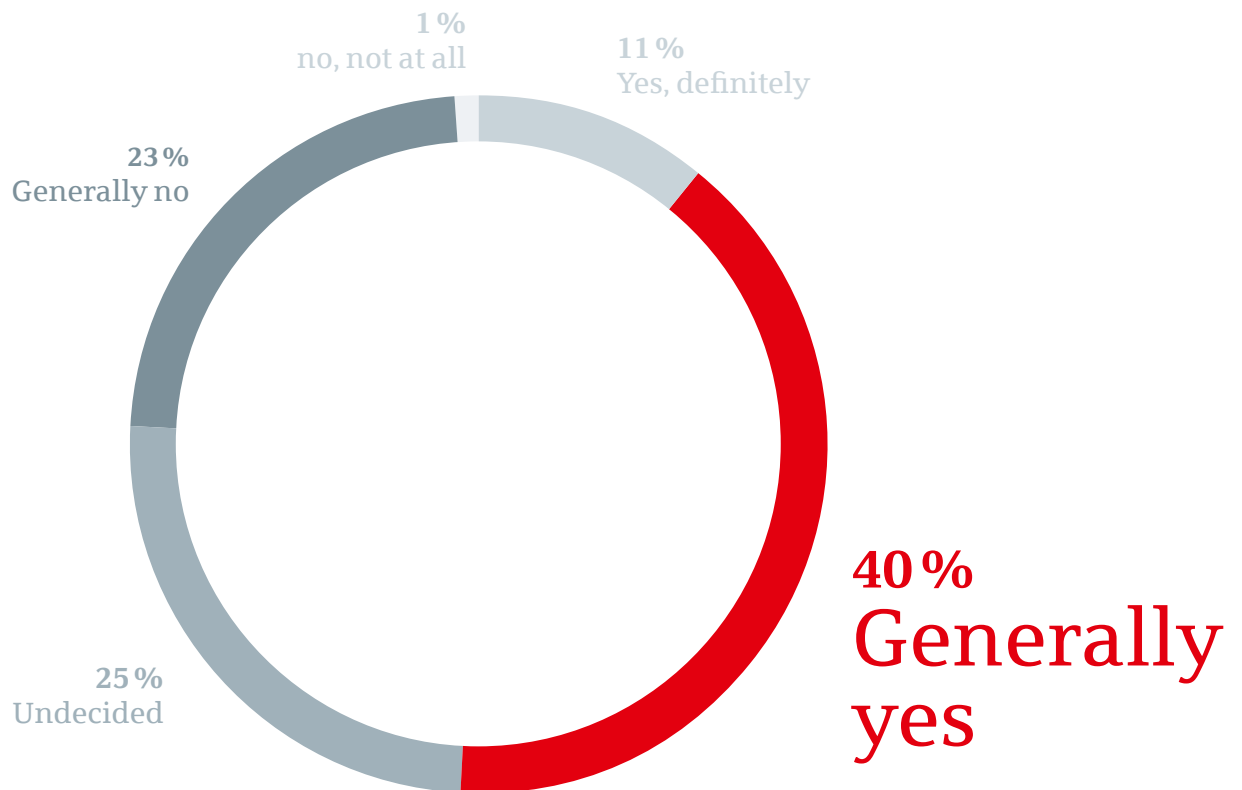


Will small and medium-sized towns gain from urbanisation in the medium term?

Small and medium-sized towns picking up

More than half of the survey participants (51%) anticipate that small and medium-sized towns will gain from urbanisation. Of the real estate experts asked, 25% are undecided, while 24% see small and medium-sized towns as losing out when it comes to urbanisation.

Where to go if the city is already over-crowded or the way of life is changing? What if terraced houses are replacing historical buildings in trendy neighbourhoods and the choice of primary schools is more important than theatres and operas? Then small and medium-sized towns are an option for young families and people for whom life in the big city has become too expensive. These cities score with good educational institutions, a good mix of businesses and high quality of life. But there is one limitation: the location! The closer to the big city the better. Here, 'metropolitan region' are the magic two words!

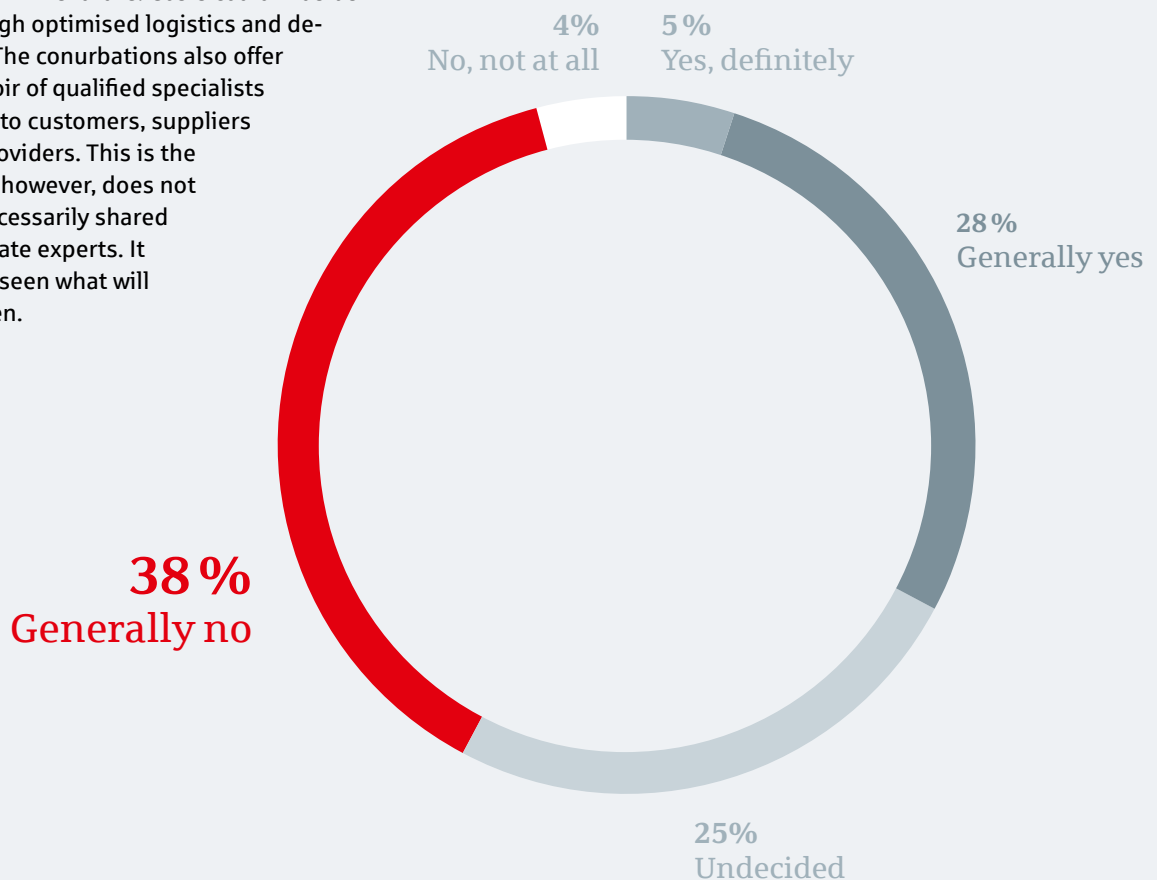


Will manufacturing companies move closer to the cities and thus closer to customers and employees again? In other words, will there be a renaissance of urban production and logistics in the medium term?

Renaissance of urban production and logistics uncertain

Here, opinion is divided. While 33% of the survey participants expect a revival of urban production and logistics in the medium term, 42% deny this. Twenty-five per cent are undecided.

In order to optimally meet the service needs of the growing urban population, production and supply will move closer to the cities in the future. Costs could thus be reduced through optimised logistics and delivery routes. The conurbations also offer a large reservoir of qualified specialists and proximity to customers, suppliers and service providers. This is the theory, which, however, does not seem to be necessarily shared by the real estate experts. It remains to be seen what will actually happen.



10

Will smart building technologies revolutionise the construction industry?

The future belongs to smart building technologies

A clear decision: 69% of survey participants believe that smart building technologies are revolutionising the construction industry. Only 11% assume that this will not be the case, whereas 20% are undecided.

With Building Information Modeling (BIM), errors in construction can be prevented and cost savings achieved after completion. BIM represents the digital image of a building and then manages the entire construction. After completion, the building will be controlled efficiently and as far as possible automatically throughout its entire life cycle. Thanks to smart building technology, construction is also more time-efficient and increases planning reliability and productivity. Experts believe that BIM allows timesavings of up to 50% in the construction process.

23 % Yes, definitely

46 %
Generally yes

20 % Undecided

10 % Generally no

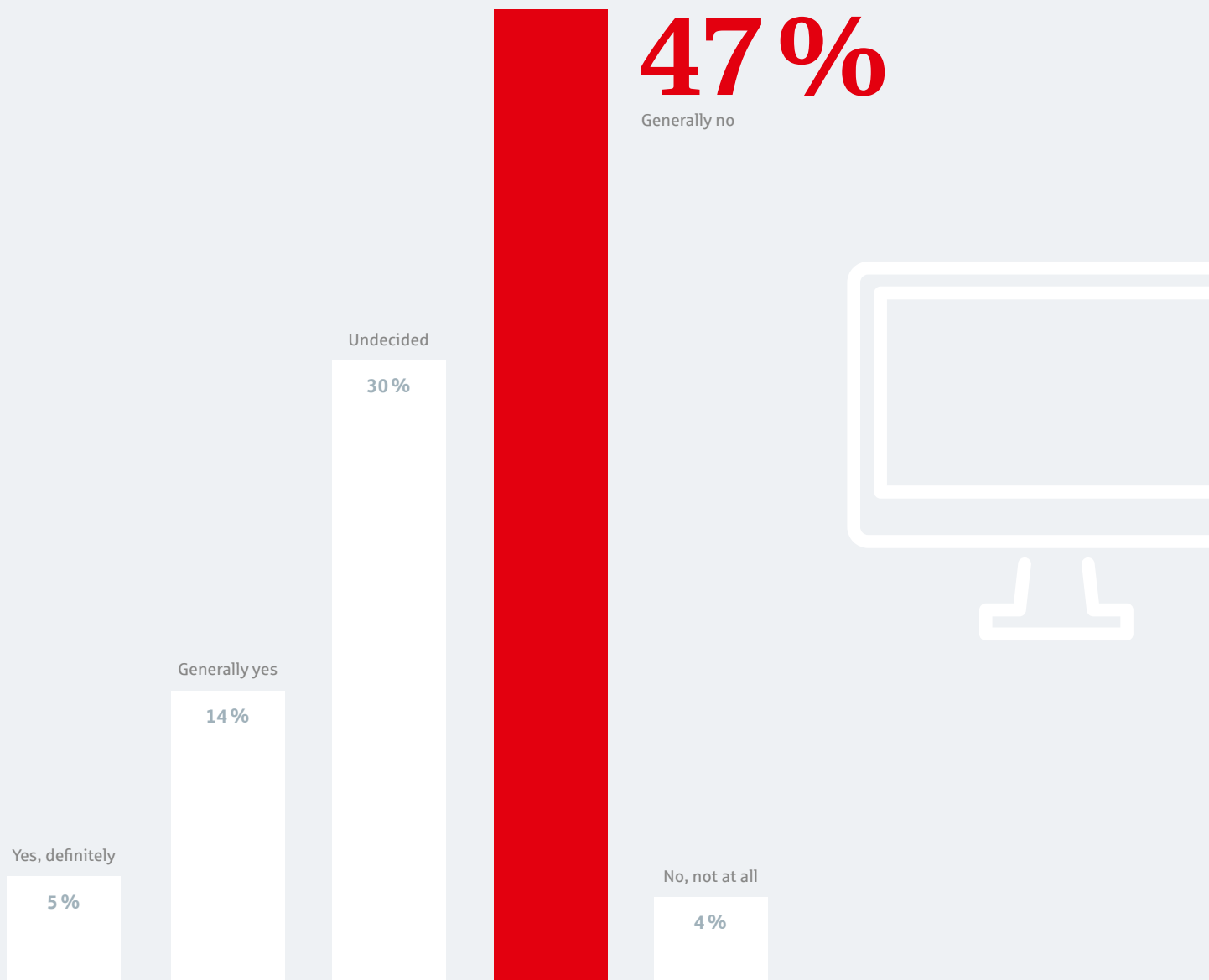
1 % No, not at all

Are real estate companies investing enough in digitisation?

Real estate companies:
'dinosaurs' of digitisation?

Fifty-one per cent of survey participants believe that real estate companies are still investing too little in digitisation. Nineteen per cent of real estate experts think that real estate companies invest enough, whereas 30% are undecided.

Although real estate companies see digitisation as an important opportunity to improve business processes and reduce costs, on average they invest only 5% of their annual revenue in measures to improve digitisation. The implementation of new digital trends such as the electronic collection and evaluation of data, automation and networking is making slow progress in the real estate sector. So, there is still enough catch-up potential here.



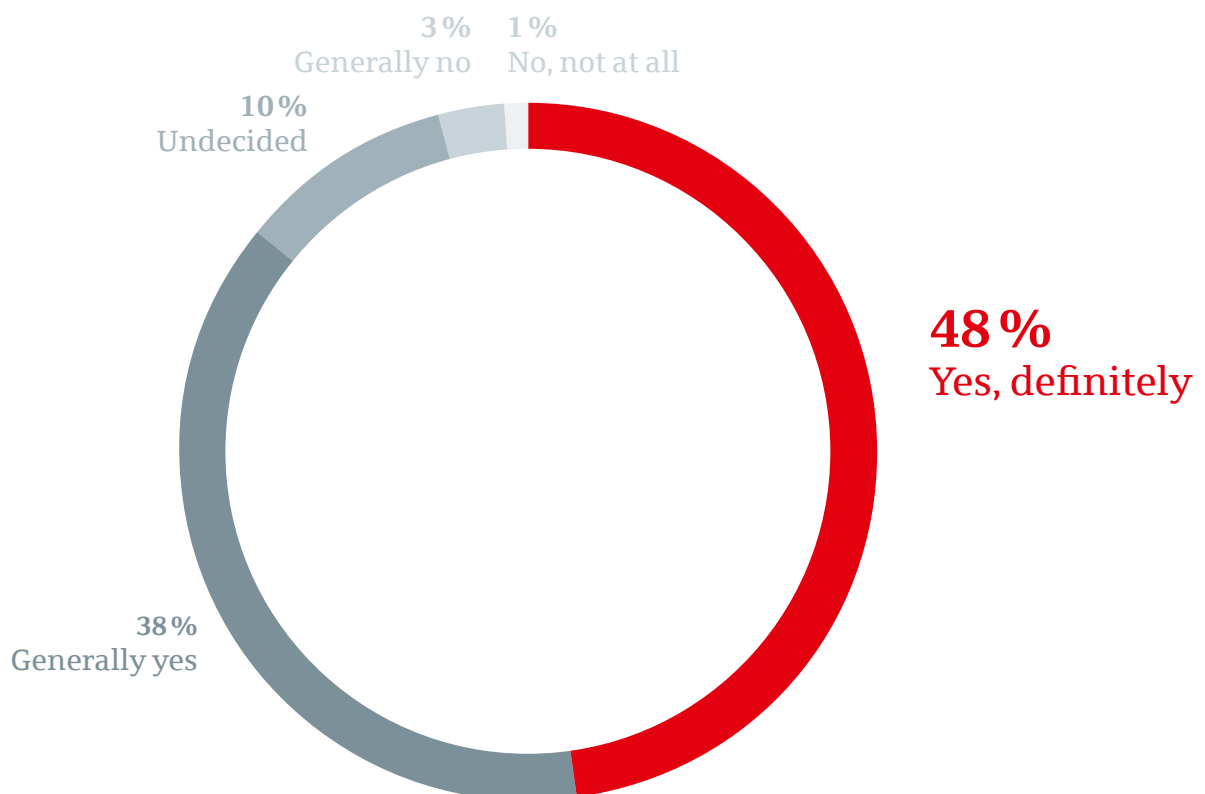
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Will office concepts have to adapt to new corporate structures and the expectations of modern society?

Offices in upheaval

A very clear decision: 86% of the real estate experts surveyed believe that office concepts must adapt to modern society. Only 3% deny this and 10% are undecided.

A new generation with diversified expectations is entering the labour market and driving employment change. This generation is more mobile and works partly from alternative locations, such as co-working spaces during working hours. As a result of digitisation, the boundaries between leisure and work are dissolving. Only a few employees still clearly separate the two areas of life. Furthermore, the corporate structures themselves are undergoing change. Hierarchies are being flattened and cross-company project work is promoted. This requires new office and IT infrastructures. Office space is becoming "living space" and building structures used flexibly.

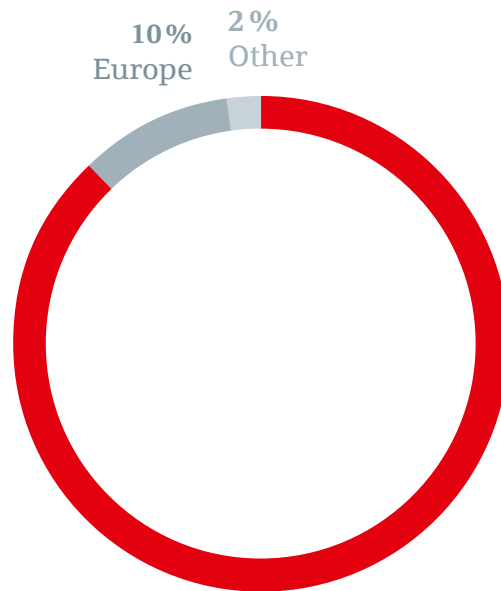
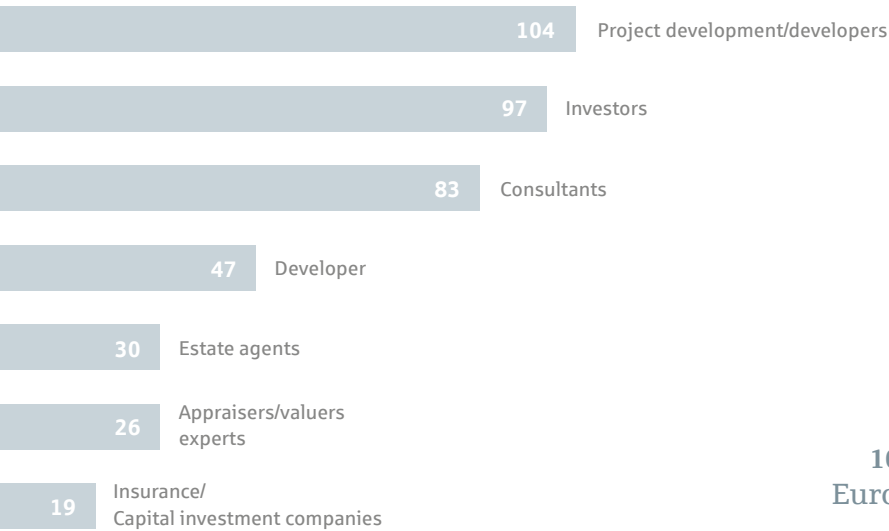


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Which are your company's business areas?



170
Banks



88%
Germany

14

Where is your company headquartered?

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