Department for Economic Affairs and Science

NÜRNBERG

REAL ESTATE INVESTMENT MARKET REPORT
NUREMBERG 2024

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FOREWORD

Dear readers,

The real estate sector faced complex challenges in 2023. Soaring interest rates, high energy and construction costs, and the negative impact of the geopolitical situation all contributed to more serious liquidity, price stability, marketing and exit risks.

In line with the trend in Germany as a whole and developments in the Top 7 cities, Nuremberg recorded a significant decline in the volume of transactions. At € 319 million, institutional investors' involvement in the Nuremberg real estate investment market was around 70 percent down on the previous year. Nuremberg has established itself as one of Germany's leading B cities for real estate thanks to the outstanding location factors inherent to its economic environment.

These include the presence of major companies and of renowned research institutions with key expertise in new drive and mobility technologies, power electronics and energy technology, as well as the newly emerging Technical University of Nuremberg with its strong focus on artificial intelligence. Nuremberg's high level of job creation and positive demographic trend, which are constantly generating demand on the rental markets for modern office buildings, residential space and innovative new neighbourhoods, also provide a good basis for future activity on the real estate investment market.

The huge expansion of Nuremberg as a centre of science and its focus on the key subjects of the future provide ideal starting conditions for a resurgence in market momentum. There is confidence in the location. Throughout its history, Nuremberg has proven many times that it can successfully overcome crises and seize opportunities as they emerge.

The Nuremberg 2024 Real Estate Investment Market Report breaks down performance in the individual asset classes and provides a transparent and reliable basis for decision-making with detailed figures. All of the data in the report has been gathered, evaluated and provided to the City of Nuremberg by Küspert & Küspert Immobilienberatung GmbH & Co. KG.

I hope that you find it an interesting read.

Dr. Andrea Heilmaier
Deputy Mayor for Economic Affairs and Science of the City of Nuremberg
Appointed City Councillor

TRANSACTION VOLUME

Transactions almost entirely absent from idling markets – government buying generates tailwind

Institutional investors and professional private investors accounted for a transaction volume of € 319 million on the Nuremberg investment market in 2023. This equates to a significant decline of almost 72% compared with the previous year, and of more than 77% measured against the five-year average. After several buoyant years with billions of euros changing hands, this type of figure marks a turning point for Nuremberg. There was little in the way of large-volume transactions and any that did take place were limited to the residential property segment, which was the top category with two global sales (€ 70 million and € 30 million respectively).

Market activity was generally focussed on the institutional housing segment, which consolidated its leading position and accounted for nearly 70% of the market. However, at € 221 million, the absolute volume recorded in commercial residential portfolios, residential complexes and larger apartment buildings was 54% down on the previous year. The only notable transactions concerned two new-build properties in the residential segment, which were purchased by the public-sector housing company Bayernheim and jointly accounted for around € 100 million, i.e. almost half of all residential property transactions.

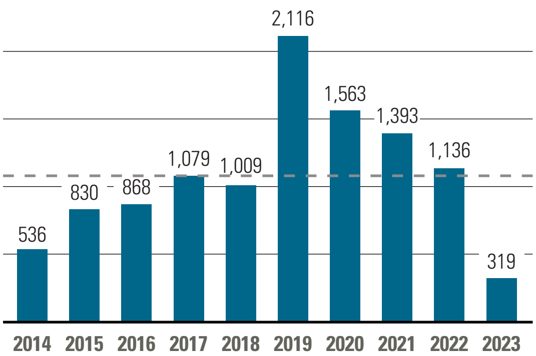
After a slight increase in office real estate investments in the previous year, the segment virtually fell into obscurity in 2023. Totalling € 43 million, around 13% of the transaction volume was invested in office and administrative buildings, a year-on-year fall of 87%. In addition to the general perception of risk on the capital market, economic concerns, changing space and floor plan requirements, and the outdated energy efficiency of the office stock are all likely to have been the main factors specific to this area of the market. The biggest transaction took place between two owner-occupiers and only just topped the ten million mark.

Project development properties accounted for a transaction volume of around € 32 million in 2023 (down 72% on the previous year). The market share remained almost constant at 10%, but this transaction activity leaves scant development potential for the future and therefore little in the way of any immediate sales volume for the coming years.

At € 16 million, industrial and logistics properties reached a market share of just under 5%, which was more than 91% down on the previous year's result. The 2022 figure had, however, included a strong one-off effect in the high tens of millions. Generally, both the commercial property market and the investment market in this segment feature high levels of demand in the urban area and throughout the metropolitan region.

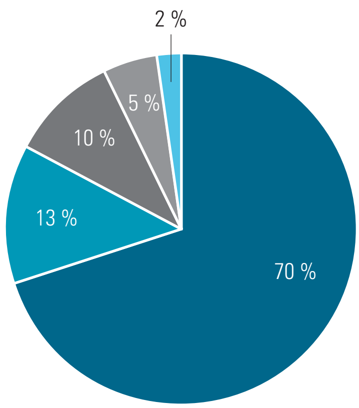
In 2023 there were practically no transactions much below the € 10 million mark in either the retail or hotel segment.

Transaction volume, total
(in € millions)



– – 10-year average (2014-2023): € 1,085 million

Transaction volume in 2023 by asset class



Residential
Offices
Industry & Logistics
(institutional) Land
Retail

SUPPLY AND DEMAND

Rising purchase yields in the market – lack of corollary between supply and demand

Given the low number of transactions, many segments are missing a broad body of data. However, the available information does reveal the following: purchase price factors are falling across practically all segments, with initial yields rising accordingly.

In 2023, most institutional investments in residential property were made in the city of Nuremberg based on purchase price factors that enabled an initial yield of between 3.8% and 5.9% (generally small-volume tickets). Compared with the previous year, the observed purchase prices for existing properties have therefore dipped by between four and five annual rents. Higher purchase price factors were only still achievable in the area of subsidised new residential construction, which with a prime yield of around 2.9% was the only segment that was basically unchanged or even marginally down (minus 10 basis points).

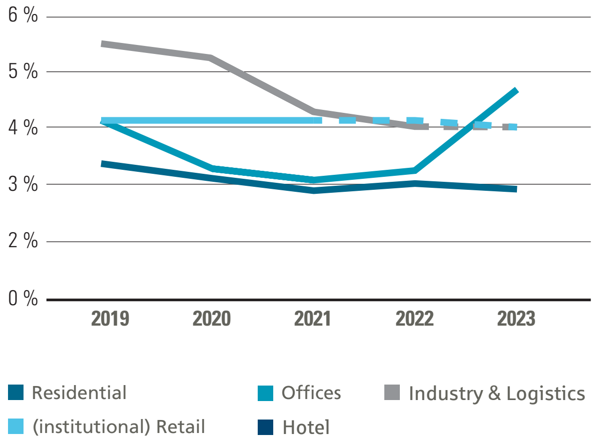
Where transactions in the office segment were realised at all, the majority of initial yields lay between 5.8% and 7.1%, with two more attractive properties (such as core plus quality) achieving around 4.7% However, as the properties sold in 2023 did not include any core properties or properties with outstanding ESG compatibility, this figure is only comparable against the previous year's peak yield of 3.25% to a limited extent (plus 145 basis points).

The very small number of cases makes it particularly difficult to determine a yield trend for the industrial and logistics property segment. Not least because no high-quality, contemporary space in prime locations was sold, there is no prime yield to compare with the previous year's figure. The limited observations indicate continued interest in such properties, as even mid-range quality properties are still yielding around the 5.1% mark – NB: A gross prime yield for retail and a level that is slightly up on the previous year and even below many office yields.

A similar challenge arises in the retail segment, where a small number of transactions with initial yields of between 5.3% and 7.7% were identified. Here, too, there was no prime property on the market that can be used to determine a reliable prime yield, specifically no high-street or local shopping centre property.

With regard to the retail and industry & logistics segments, the previous year's prime yields are therefore maintained due to the current low level of transactions and inadequate data situation.

Top yields* by asset class



* Gross initial yields (not including management and ancillary acquisition costs)

Note: A gross prime yield for the retail and industry & logistics cannot be reported for 2023 due to the insufficient volume of transactions.

BUYER GROUPS

Absence of institutional clients – market dominated by owner-occupiers, family wealth and project developers

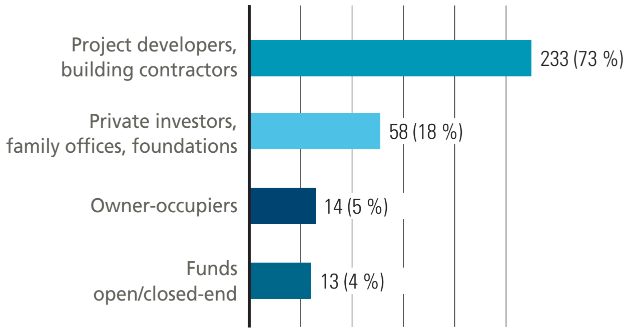
While institutional buyers such as open-end and closed-end property funds still dominated the list of buyers up until 2022, they all but disappeared from the Nuremberg transaction market in 2023: approximately € 13 million in new investments could be attributed to them, representing a decline of a good 97% compared with the previous year and relegating them to last place on the list. A mere 4% of the already low transaction volume in the market as a whole related to institutional clients (previous year: 61%). Investors operating in a strictly financially efficient context do not yet appear to be finding the prices they are looking for on the market to match their own risk/return analysis and assessment of the opportunities.

Project developers and building contractors led the way, accounting for the lion's share of 73% of purchases at just under € 233 million (previous year: € 246 million, 24%). This category includes residential construction companies as well as housing companies, with Bayernheim in particular standing out as a state-owned buyer in 2023.

Family offices and professional private investors realised a transaction volume of € 58 million in 2023, giving them a market share of just over 18%. Compared with the previous year, the volume of transactions was roughly halved with private asset management companies strengthening slightly in relation to the other players (previous year: 12%).

As in the previous year, there were as good as no direct investments by owner-occupiers, banks or insurance undertakings in 2023. Owner-occupiers attracted slightly more attention than in 2022, with a buyer-side market share of just under 5% (previous year: less than 3%) and a transaction volume of a good € 14 million, which was roughly half as much as in the previous year.

Buyer groups in 2023
Investment in € millions (share of transaction volume)



SELLER GROUPS

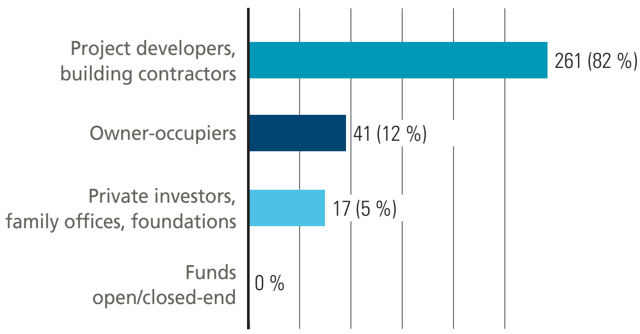
No sales by institutional investors – project developers sell off remaining projects

It would once have been hard to imagine, but in 2023 there were no single transactions involving institutional entities such as real estate funds in the role of seller. For the first time conducting this research, the transaction volume for this group was zero (-100%).

Despite a sharp decline in market activity overall, project developers were once again the leading players on the seller side in 2023, accounting for around € 261 million and around 82% of the transaction volume (previous year: approx. two thirds). Very significant emanated from the global sale of residential developments. Yet there was no evidence of any massive sell-off or resale of non-performing projects. In this context, however, it should also be noted that the development pipeline of property developers no longer looks as well stocked for the future.

As on the buyer side, the volume of owner-occupiers selling fell significantly to around € 41 million, although at more than 12% it represented a more significant share (previous year: 9.0%). Accounting for around € 17 million, private investors and family offices were not a significant player among institutional sellers (previous year: € 145 million, share of 13.8%).

Seller groups in 2023
Investment in € millions (share of transaction volume)



OUTCOME

Cautious expectations for 2024 – glimmers of hope for interest rates and contemporary properties

The difficult situation in the real estate sector is also having a tangible impact on the Nuremberg market. General factors such as uncertainty triggered by volatile inflation, a shortage of skilled labour, energy regulation and the resulting sharp rise in construction costs are combining with elevated geopolitical risks to create social and economic challenges. All the same, after ten key interest rate hikes in a row, the ECB returned to the role of market observer, and capital market interest rates eased somewhat towards the end of the year.

Nevertheless, the challenges in project development, but also in existing investments, are still huge. The combination of capital requirements and standard costs of capital on the market is still almost impossible to represent in calculations against the backdrop of rising yield expectations. Only very modern properties with high energy standards or state-subsidised housing models can promise exit prices that are close to negotiable.

At the same time, the supply side is not yet prepared to accept any major purchase price reductions. Longer-term financing in particular cushions a lot of the pressure to sell. Consequently, the market remained in a state of rigidity on both sides for four quarters in 2023, causing the volume to slump by almost 72% year-on-year. The much-cited bottoming out of prices in the Nuremberg market has probably not yet happened due to the ongoing muddle.

MOOD BAROMETER

Looking to 2024, expectations ultimately remain cautious. As in previous years, we talked to numerous market players for this market report, surveying their views about the future outlook. Only around 3% of respondents stated that they intend to inject more capital into new investments in the Nuremberg market in the coming year. A slight majority, at 53%, have earmarked a lower budget or no budget at all. Nevertheless, around 44% view constant new investment as a possibility.

The clear majority of around 70% of respondents forecast falling purchase price factors for office properties, but also in the retail segment (67%) and for hotels (52%). In the case of institutional residential property investments, there was almost a clear split between the "pessimists" (48%) and the "optimists" (stagnating or rising prices, 52%). In addition to residential property (14%), rising purchase price factors were only considered possible, if at all, for industrial and logistics properties (13%) and healthcare properties (18%), and represent minority opinions.

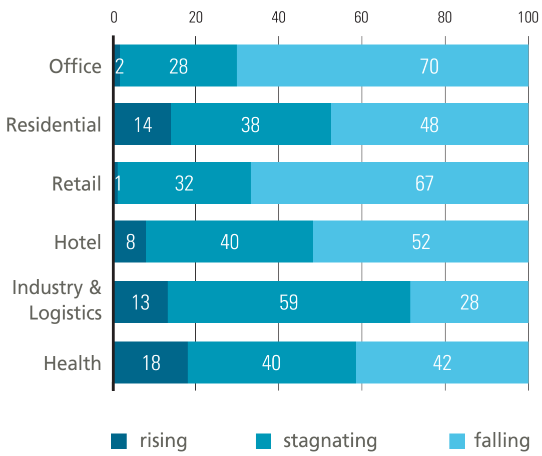
The greatest consensus related to the opinion that there is likely to be an increase in insolvencies, business closures or even mergers among project developers in 2024 (83.5% in agreement). At the same time, the expectation that demand will fall, even for undeveloped plots, appears to be a majority view; this applies to both new residential and commercial property developments (residential: 77.8% in agreement, commercial: 73.9% in agreement). The short-term future prospects for new construction projects are therefore rather bleak.

If the respondents are right, pricing on the market will continue to drag on with no sharp growth in the supply of available properties over the coming year. The respondents' answers here painted a rather mixed picture. There was, however, a higher level of agreement that there could potentially be a sharp increase in the available supply of existing properties in 2024 due to the rise in financing 57.6% in agreement, commercial: 62.9%).

Interestingly, many of the respondents stated that the property ratio in their own investment portfolio is unlikely to decline (41.1% in agreement), but that they do expect this to be the case for institutional investors as a whole (63.6% in agreement).

In light of the rather negative assessments and the sometimes very inconsistent feedback, it would not be surprising if the market were to continue with its wait-and-see approach in 2024 rather than quickly returning to active trading. As long as their own financing structure allows, many players will presumably continue to hold on to properties, also in the hope that capital market conditions and achievable exit factors will have improved again by the time follow-up financing is available to them. Either way, the influence of the unfortunately still unpredictable framework conditions, particularly developments on the labour, sales and procurement markets, should not be underestimated in 2024.

Short-term expectations regarding stable or rising purchase price factors (in %)



The Nuremberg real estate investment market in figures

Transaction volume
TOTAL
€ 0.31 billion

Strongest asset class for
SALES
€ 221 million

Top yield
OFFICE
4.7 %

Top yield
RESIDENTIAL (NEW BUILDINGS)
3.0 %

Nuremberg in

Population size
544,414

Employees paying social insurance
318,779

Unemployment rate
6.1 %

Disposable income per capita
€ 24,057

GDP
€ 32.3 billion

5-year GDP growth
10.8 %

Ideal located
in Germany and Europe

More detailed information can be found in the Real Estate Market Report Nuremberg available at www.economy.nuernberg.de.

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