



Catella: Hype about German residential properties continues

A study entitled “Residential Market Ranking Germany 2015 – Regional residential markets under the spotlight” compiled by Catella shows an increasing international investor focus on regional residential markets in Germany. Findings also show a polycentric geographical structure and lack of transparency discourage investment. Ingolstadt, Regensburg, Darmstadt lead the ranking, while Herne, Remscheid and Detmold are at the bottom end.

The hive of activity currently witnessed in terms of investments, price increases, takeovers and initial public offerings in the German property markets is a sign of the great attraction of this market segment. That is one of the findings in the study made by Catella.

“This positive development in the top 7 residential markets is, however, offset by in some cases significant transparency gaps at the regional locations,” says Dr. Thomas Beyerle, Head of Group Research at Catella, explaining the factors that motivated the analysis.

Another indicator is the sharp rise since the beginning of 2015 in the number of search requests from domestic and foreign institutional investors relating to residential property markets.

“In this complex situation, you can literally sense the search for the alpha, i.e. yields that beat market interest rates in the residential markets,” continues Beyerle.

The market transparency often demanded by investors must not be confused with the presentation of prices on offer on well-known search engines. For investments intended for the long term, structural aspects of the regional residential markets ultimately outweigh the importance of price levels at a specific date. According to analysts, regulatory intervention, such as the recent debate about the rent index or the rental cap introduced as from 1 June 2015, are ultimately incorporated into the medium to long-term costings.

Here is a summary of the results of the analysis:

- The indicators used in the analysis are defined on the basis of the following subsets: socio-economic data, structural risk, liquidity risk and location potential
- The top 5 investment locations in the residential segment in 2015 are Ingolstadt, Regensburg, Darmstadt, Potsdam and Hannover
- The bottom five places are occupied by: Coburg, Siegen, Detmold, Remscheid and Herne
- In terms of the geographical distribution of the top 25 locations, it is noticeable that strong residential markets appear to be concentrated in the north and south of the country. Nine of the top 25 locations are in Bavaria and Baden Württemberg.

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- But Lower Saxony also has an above-average share of cities among the top 25: Hannover, Braunschweig, Wolfsburg, Lüneburg, Osnabrück, and Oldenburg
- Clusters and proximity to the top locations have a greater impact on the regional residential markets than ever before: This impact is substantial in the case of Darmstadt, because of its location close to Frankfurt am Main, as well as for Fürth and Erlangen near Nuremberg
- In terms of rentals, six cities in the Ruhr Area alone are among the top 10 locations with the lowest rent levels or the greatest divergence from the average rental among all 70 locations investigated.

“There is no doubt that the current hype about German residential properties is significantly influenced by a lack of alternative investment options, driven above all by the global interest rate environment as well as the returns expected by investors. Against this backdrop, the frequently raised exit problem at regional locations is not in itself an impediment to investment at present. Our analysis maps the supposed lack of marketability during market downturns almost like a textbook case in terms of above-average yields – throughout Germany”, says Beyerle.

The attached diagram provides indications of the current ranking.

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