Market Report Nuremberg 2023

Investment

Sparkasse
Nürnberg

Market research and analysis by

KÜSPERT&KÜSPERT

Editorial

Dear Reader

The Russia-Ukraine conflict and with it the beginning of the energy crisis caught us unexpectedly last year. We have also been feeling the effects of climate change more and more strongly, in the form of extreme weather events for example. For all of us, the relevance of a sustainable rethinking of society in order to create a safe and viable future is becoming increasingly clear. Consequently, ESG (Environment, Social and Governance) investment criteria are becoming more important across all asset classes. Sustainable solutions are also needed on the real estate market. What will the green property of the future look like? How can digitalisation be successfully implemented in-house and in terms of infrastructure?

At Sparkasse Nürnberg, we want to be the number-one facilitator of sustainable transformation for our customers in the metropolitan region. That is why we support the business community with a broad range of sustainability services. With our certified corporate client advisors and the sustainability portal eRNa, we provide pooled knowledge, strategic support and specific solutions. Businesses can also benefit from our strong partner network with the NKubator for strategy consulting and with the energy consultants from ENERGIERegion Nürnberg.

What moved the markets in 2022?

The year 2022 got off to a confident start. It felt like the pandemic might be more or less over as the restrictions put in place to deal with Covid-19 were gradually lifted. Then, in February 2022, the Russia-Ukraine conflict was the next global crisis to hit the markets. High energy prices in Europe, inflation of more than seven percent and widespread fears of recession were the result. For its part, the European Central Bank responded by abandoning its exceptionally expansionary monetary policy of the past eleven years. The main refinancing rate rose as high as 2.50 percent, making lending more expensive and putting pressure on the stock markets.

How has this affected the real estate markets?

The real estate sector finds itself in a challenging environment: aside from the shortage of skilled labour, higher construction costs, supply chain issues and the growing demands of ESG criteria for sustainable development, it is now also dealing with the impact of rising interest rates. New construction projects need a reliable basis for long-term calculations – especially with regard to future consumer demand as prices rise and the ability to save declines. Demand for real estate financing has been falling significantly since last autumn, and the price increase, which has been ongoing for twelve years, appears to be over for now. Yet investing in real estate remains an attractive and innovative option. Real estate was an asset class that generated stable returns in 2022, particularly investments in residential and office properties and the care sector. Existing leases offered opportunities for value growth from inflation adjustments. In commercial real estate, the corona virus pandemic gave a significant boost to the concept of working from home and to digitalisation. Although large corporations in particular are now bringing their employees back into the office in order to increase creativity, this does not mean that the trend is being reversed. New working environments offer the office property asset class a future-oriented design for the free development of employees and a healthier environment. The logistics property segment can also look back on a strong year. The trend towards same-day delivery has further boosted the development of city logistics and breathed new life into previously unattractive vacant premises.

So what is the forecast for 2023 on the real estate market?

Demand and thus also property prices might initially continue to nudge downwards in 2023, but we do not expect a sharp drop in prices. As the number of new buildings is lagging behind the political targets, structural demand will continue to exceed supply on the real estate market in the future. As in any crisis, a revaluation of the market can offer attractive opportunities, even if further interest rate hikes are to be expected in the short term. We expect an inverse interest rate structure in 2023. Fortunately, based on current economic forecasts, the recession that was feared is unlikely to materialise. For those who do not yet have any concrete plans, there is a "classic" option that offers secure interest rates and capital accumulation, namely the building savings contract. Whether for follow-up financing or new financing, the "Bausparvertrag" provides long-term planning security in the current interest rate environment as rates in longer maturities fall. ESG-compliant new buildings and the sustainable refurbishment of old properties offer market opportunities. Energy consumption is becoming a critical factor in the choice of real estate. We, too, have been focusing on the energy-efficient refurbishment of our buildings for years now. Our top priorities in the redevelopment of our future-oriented head office at Lorenzer Platz are ecological efficiency and sustainable construction.

The real estate market is on the move!

In Nuremberg, transaction activity in 2022 was limited to Q2 and Q3 in particular, with almost no sign of the usual year-end rally. The investment volume for the year as a whole was around € 1.1 billion – a fall of 22 percent compared with 2021. And this is a development that affects Sparkasse Nuremberg too. Despite a decline in new financing business, we are once again the market leader in the commercial real estate segment with a volume of around € 2.8 billion. As the basic parameters change, the risk policy of banks and savings banks is also evolving. We at Sparkasse Nürnberg, with more than 200 years of experience and our forward-looking business policy, remain a consistent and reliable financing partner for our customers, even in difficult times.

We would like to thank our partner Küspert & Küspert Immobilienberatung GmbH & Co. KG for our trust-based and always professional working relationship, and for their work in compiling and evaluating the data used in this market report, which we are now presenting together.

We hope you enjoy reading our insights into the Nuremberg real estate market.

Matthias Wittmann
Member of the Board

Miguel Soto Palma
Director Real Estate Customers

Investment Market Nuremberg | Key Figures

	2018	2019	2020	2021	2022	Forecast
Transaction volumes in EUR million	1,009	2,116	1,563	1,393	1,136	→
Largest asset class in EUR million	Residential 464	Residential 1.120	Residential 739	Residential 525	Residential 480	Residential →
Top yield office in percent	4.9	4.1	3.3	3.1	3.3	↗
Inhabitants in thousands	535	536	532	530	541	
Employees paying social insurance contributions in thousands	311	315	309	312	318	
Unemployment rate in percent	5.1	4.9	6.2	5.3	5.5	

Transaction volumes

Markets in rapid upheaval –
Final spurt absent in the fourth quarter

Institutional and professional private investors achieved a transaction volume of 1.14 billion euros on the Nuremberg investment market in 2022. This narrowly achieved a result in the billions. This is a good figure compared to the long-term Nuremberg average, but also represents a decline of around 18% compared to 2021. What is striking is that large-volume transactions were almost exclusively limited to the quarters Q2 and Q3; in particular, the usual year-end rally was almost absent in 2022.

There were no large-volume individual transactions above 100 million euros. A large transaction in the residential segment involving approx. 135 million euros, which was not officially announced to the market until spring 2022, had already been counted by this research for 2021 and was therefore already included in the last market report.

The institutional housing segment defended its top position in transaction volume and realised a volume of around 480 million euros (- 9.1% compared to the previous year). The segment thus appears relatively stable, with commercial residential portfolios, residential complexes and larger multi-family houses accounting for around 42% of the transaction volume, which is slightly above the previous year. Major transactions in 2022 included the forward deal of a student housing project in the Schweinau district and the global sale of a completed new construction project in Erlenstegen, totalling just under 90 million euros. Two further package sales in the range of around 50 million euros also contributed significantly to the volume.

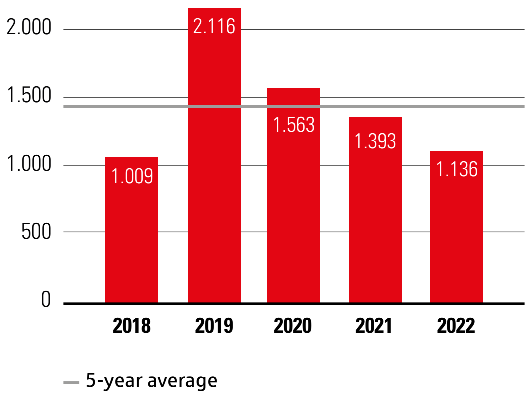
After a dry spell in the previous year, office properties were able to expand the volume again to 339 million euros (+ 18.5%), but did not reach the record results from the pre-Corona years. By far the largest transaction was the sale of the south-east site "Auf AEG" for around 90 million euros, followed by the sales of the new office property "Karl" in Marienzeile for around 60 million euros and an existing office building with long-term extended leases on the Plärrer square for just under 30 million euros.

The industrial and logistics property (I&L) segment posted a strong year in 2022. With a transaction volume of around 180 million euros (+ 414.3% compared to the previous year), the niche segment secured a highly visible market share of 15.8%, with a high double-digit million euro amount attributable solely to the sale of a single, newly constructed and contemporary logistics property in the south-east of Nuremberg. In the meantime, the lack of available investment opportunities in the I&L segment continues in the Nuremberg urban area, and the transaction potential in this usage category was far from exhausted.

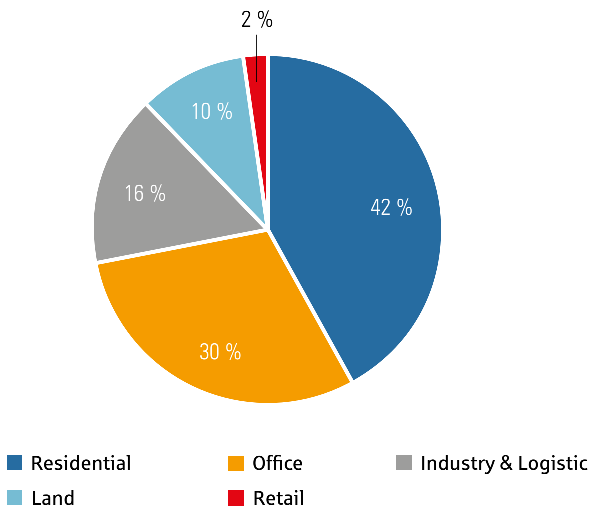
After the extraordinarily high record volume of the previous year, properties for project development experienced a decline to just under 113 million euros (- 72.7% compared to the previous year). About 10% of the transaction volume was invested in future sites and thus in new building potential. However, a considerably higher volume could have been achieved in this area as well if there had been a corresponding offer on the market.

In the retail segment, fewer than five transactions were observed in the small-volume sector, which generated a total of around 24 million euros. The fact that a significant share of the volume is accounted for by a property that will be converted to a change of use underscores the challenges in this segment.

Transaction volumes
(Euro in millions)



Transaction volumes according to classes of asset
(in percent, in 2022)



Supply and demand

Stagnating to rising purchase yields – Relatively stable price structure for top properties

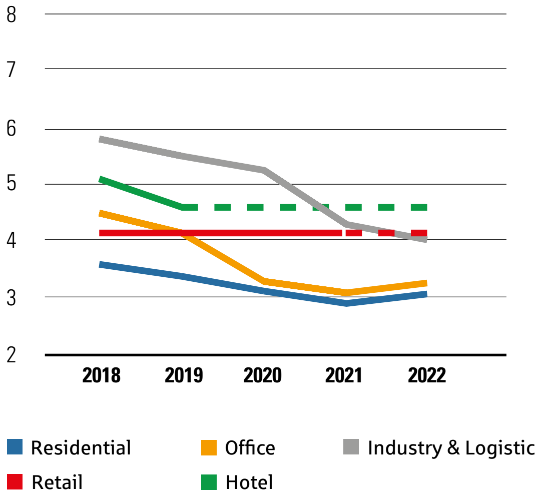
The peak yield of core office properties in the central business district (CBD) rose marginally to approx. 3.25% in 2022 (+ 15 basis points compared to the previous year). Against this backdrop, the willingness of potential buyers to pay, at least for contemporary to sustainable properties, appeared to be persistently high. The majority of transactions ranged between 3.6% and 5.25%, depending on age, location, building quality and the rental situation.

Institutional residential investments in excellent newly built quality were still relatively stable at peak initial yields of 3.0% (+ 10 basis points), in weaker locations and in medium-quality existing buildings between 3.3% (+ 20 basis points) and 4.5%. A sharper slump in purchase price factors was not observed by the end of the year. Deals tended to be cancelled rather than concluded at more favourable prices in line with the financing.

There was further movement in the market for industrial and logistics properties. The yields on purchases in the high-quality segment were subject to further compression to an average of about 4.0% (- 30 basis points). One top transaction was even lower, at just under 3.4%, but it is not representative of the usual market level due to the uniqueness of the property. The majority of the I&L properties were existing properties, which were traded at purchase yields of 4.5 to 5.7%.

Retail properties recorded average purchase yields of 4.6% with a low number of cases and thus relatively similar values to the previous year, characterised by local retail outside the centre. Since there were no significant high street deals in 2022, the previous year's value of 4.15% for commercial properties in prime locations was maintained.

Top yields* according to classes of asset
(in percent)



* Gross initial yield (management and acquisition costs not considered)

-- Top yield for hotels cannot be reported for 2021 due to lack of transactions.

Buyer groups

Institutional investors stock up – Family offices noticeably more restrained

With an investment volume of around 648 million euros, capital collection agencies such as open-ended and closed-end real estate funds were again the strongest buyer group – they accounted for around 60% of the transaction volume on the market (previous year: 37%).

Project developers and builders followed with a buyer market share of around 25% and a transaction volume of 277 million euros (previous year: 601 million euros, 43%). The volume was again increasingly concentrated on undeveloped or projected properties, i.e. classic purchases for the development pipeline. In the previous year, these players had increasingly purchased existing properties with sustained rental potential and only a long-term need for development.

Family offices and professional private investors achieved a transaction volume of 127 million euros in 2022 and thus a market share of just under 12%. The volume roughly halved in comparison to the previous year; in relation to other players, the activities of private asset management companies fell for the second year in a row (previous year: 15%).

At the same time, direct investments by banks and insurance companies as well as purchases by owner-occupiers remained manageable in 2022. Taken together, these buyer groups invested around 29 million euros in the market, which corresponds to a market share of just under 3% and thus less than in the previous year. The purchase of land by a nationally active car dealer in the west of Nuremberg played a major role in the volume achieved.

Seller groups

Project developers continue to find buyers – First financing restrictions noticeable

With around 710 million euros, project developers were again the outstanding players on the seller side in 2022. Developers accounted for a good two-thirds of the market volume (previous year: 60%). In line with the market as a whole, the volume declined (in this case: minus 14.6% compared to the previous year). In general, project developers are also most likely to feel the effects of the changing framework conditions on the Nuremberg market. Nevertheless, although the pressure on financing structures, increases in construction costs and supply chain problems were only three factors putting the brakes on the project development business, lucrative sales were still possible in 2022 for high-quality and fully financed properties.

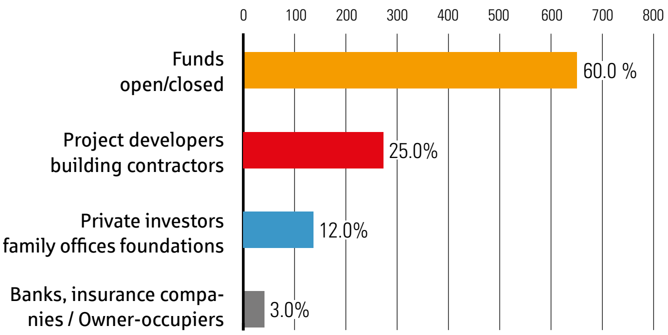
The sales volume achieved by family offices and professional private investors fell to 154 million euros in 2022 (previous year: 187 million). A share of 13.9% in the transaction volume gave this group of sellers second place in 2022.

They were closely followed by capital collection agencies and institutional investors such as real estate funds with a sales volume of 140 million euros (previous year: approx. 187 million euros) and a share of approx. 12.7% of the transaction volume. Securing current yields through further property management continued to be the main strategy in this area for 2022; portfolio adjustments were relatively minor.

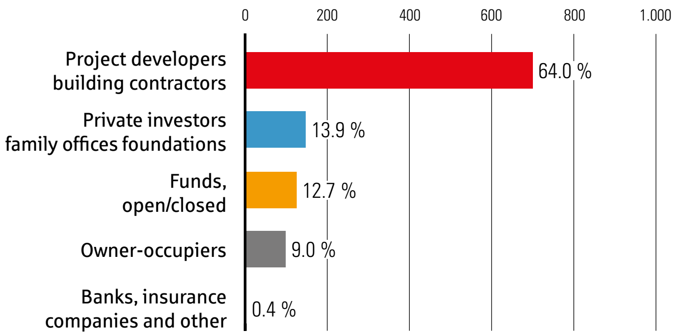
Owner-occupiers sold properties for around 99 million euros in 2022 (share: 9.0%). In the previous year, this group of sellers was still remarkably active with 188 million euros (13% share).

Banks, insurance companies and other seller groups only accounted for a minor share of under 1%.

Buyer groups
(Euro in millions / proportion in percent, in 2022)



Seller groups
(Euro in millions / proportion in percent, in 2022)



Outcome

Sustained demand for investments in Nuremberg – Market reassessment in 2023

Due to the persistently high capital reserves of various players, the Nuremberg investment market in 2022 continued to show high demand for investment opportunities, a demand that was met by a relatively low supply in certain segments.

The Nuremberg investment market thus reached a transaction volume of around 1.14 billion euros in 2022, which was mainly driven by strong transaction activity in the institutional residential investment segment (480 million euros). Yet the commercial use segments of office, industrial and logistics properties were also able to noticeably increase their transaction volume.

One noticeable aspect however was that the momentum in transaction volume gradually weakened over the course of the year and, after the last interest rate increases and at the latest in the fourth quarter, resulted in market activity “with the brakes on”.

The perceptible restraint in transaction activity in the second half of 2022 was attributable to quite different motives. While some players waited for opportunities to become more favourable and thus continued to speculate on the price turnaround, elsewhere the first capital restrictions and increasingly interesting investment alternatives besides real estate started to make themselves felt.

This mixture of factors leads us to expect that the allocation of capital to real estate might only proceed in a reduced form in the near future. This is in line with findings on future investment volumes, which were collected as part of our annual survey among market participants (see “Mood barometer”). However, the market still demonstrated relatively clear price stability in the past year, especially for top properties in the residential and office segments, which continued to trade at high levels with peak yields of 3.25% (up 15 basis points on the previous year) and 3.0% (up 10 basis points on the previous year). Meanwhile, noticeable price increases were observed in the industry & logistics segment, where the compression of the peak yield to 4.0% (minus 30 basis points) continued.

Future prospects are likely to depend heavily on whether and how quickly a market of waiting can once again become a market of action. Even if the fundamental data for this in the Nuremberg investment market is quite positive, the markets in 2023 are likely to depend heavily on overriding imponderables and the new framework conditions that are still in the process of sorting themselves out.

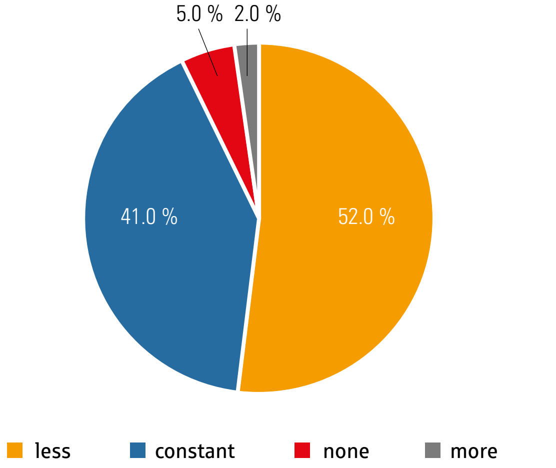
Mood barometer

Of those surveyed, around 57% stated that they had planned to reduce or even eliminate real estate investment budget for the Nuremberg market in 2023. While around 41% assumed stable flows of their own capital into the market, only 2% of respondents still saw scope for increased activity in the Nuremberg investment market.

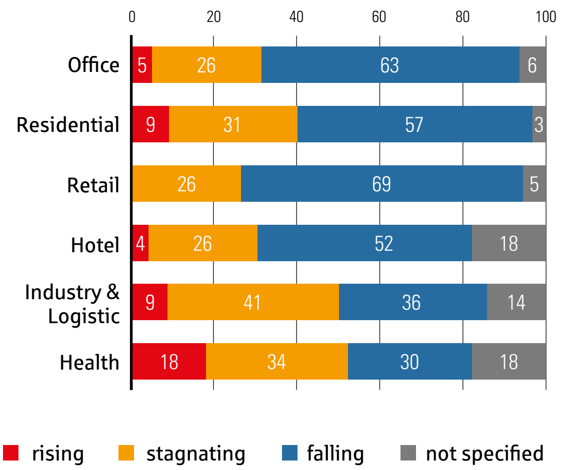
We also asked the market players about their expectations for price development in the individual use segments. The results showed that price declines are expected by the majority in the office, residential, retail and hotel segments. Even for the residential segment, the optimists who anticipate rising or at least stagnating prices have become the minority at 40%; only 9% still expect further rising purchase price factors in the residential segment. Higher price stability and further potential are expected at best in the industrial and logistics segment (50%) and healthcare properties (52%) as well as for undeveloped properties in general. As far as undeveloped real estate is concerned, the expectation of falling prices to compensate for potentially lower sales prices by project developers is a clear minority opinion (17%, not shown).

If the respondents are correct, such increasingly “fluid” market activity will not be seen again any time soon in 2023. After all, even a rapidly expanding supply of commercial properties does not seem to be part of the “new normal” in the opinion of the majority – especially among specialists in the commercial segments, where there were relatively uniform expectations. Among residential investors and for the residential real estate segment, a similar picture emerges with an even greater consensus. In this respect, it is hardly surprising that some market players are currently observing the development of the framework conditions for the markets and the price levels more in a holding pattern than being truly “active”.

Investment budgets for Nuremberg in 2023



Short-term expectations of stable or rising purchase price factors (in percent)



During the redevelopment of our head office, you will find the real estate team in the building at Marientorgraben 15, 90402 Nuremberg

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