Empira Group Research: Economy & Real Estate

Quarterly View 2025 / Q2

EMPIRA

Dear Reader,

The global economic outlook remains clouded by uncertainty in the second quarter of 2025. Geopolitical tensions, protectionist policies adopted by major economies, and a sluggish recovery in Europe continue to create a challenging environment.

In the DACH region, there are tentative signs of stabilization—particularly in residential building permits—yet the region remains burdened by subdued investment activity, structural reform needs, and a weak economic climate.

A new reality is taking hold in real estate markets: while rental growth remains robust—especially in metropolitan areas—transaction volumes and price trends are evolving unevenly. Meanwhile, capital markets remain volatile, shaped by fluctuating interest rates and global economic risks. In this environment, rigorous analysis becomes all the more essential.

With this edition of the Empira Research Quarterly View – Q2 2025, we once again aim to offer orientation—providing insights into macroeconomic developments, real estate market trends in the DACH region, the United States, and Switzerland, as well as the state of global financial markets. Our objective remains to interpret current developments and derive reliable perspectives for professional investors.

Regards

Lahcen Knapp
Founder and Chairman, Empira Group

1. Overview

The overall economic situation in Germany remains strained. The parliamentary elections and subsequent coalition negotiations have not produced any significant economic impetus as yet. Optimizations in key economic policy areas, notably bureaucracy, tax, the labor market, and migration, remain unclear.

By contrast, the real estate sector is showing some initial signs of stabilization. The trend in building permits and financing volumes in the owner-occupied housing sector is positive again, which is attributable to catch-up effects.

In light of the future expansion of government debt, no significant interest rate cuts are expected, particularly in the medium to long term. This is exerting a dampening effect on all capital-intensive sectors.

Economic climate

The global economy is facing an array of challenges, including US economic protectionism and a subdued economy in the DACH region. Tax, economic, and labor market policies are tending to create barriers and inefficiencies.

Under a positive scenario, new multilateral trade agreements and pro-business measures could help reduce protectionist barriers and unlock growth potential – stabilizing the economic environment. As such, what happens next will depend heavily on the decisions taken by the world's politicians.

DACH region

The DACH region took another economic step backward in 2024, with German GDP falling by 0.2%. The latest IMF and German government forecasts assume zero growth (0.0%) for the current year. The main culprits are the general shortage of orders and high production costs, particularly in the industrial sector, which is therefore in a deep recession. Nevertheless, the labor market is set to remain relatively stable for the time being: the unemployment rate is forecast to rise only moderately in 2025, to 6.2% (2024: 6.0%).

Lower investment (-2.8% in 2024) is a significant drag. The confrontational US tariff policy is also negatively impacting exporters. According to figures from the German Economic Institute (IW Köln), insolvencies could rise to 26,000 cases by the end of 2025 – double 2021's figure. Gross fixed capital formation in 2024 was down 2.7% year on year, with investments in construction and equipment declining by 3.3% and 5.5%, respectively.

Private consumption growth is sluggish: despite real incomes rising by 1.3%, consumption grew by just 0.3%, pointing to general consumer uncertainty.

Austria was in an even deeper recession (-1.2% GDP in 2024), and forecasts suggest its economy could shrink by a further 0.3% in 2025. In 2024, fourth-quarter exports (-3.0%) and imports (-2.0%) were particularly affected by industrial value creation (-3.5%). The seasonally adjusted unemployment rate also rose to 7.1%.

Although growth in Switzerland was more robust at 0.9%, it fell short of the 2023 level (+1.2%), primarily due to weaker export momentum (+0.1%). It is forecast to rise to 1.4% in 2025.

Inflation rates in the DACH region are diverging: whereas they are holding steady in Germany, currently standing at 2.3%, Austrian figures jumped to 3.2% in January and 3.3% in February (December 2024: 2.0%). Switzerland, by contrast, is approaching zero inflation, at a current level of 0.3%.

DACH economic growth	2024	2025p	2026p
Economic growth Germany	-0.2 %	0.0 %	+0.8 %
Economic growth Austria	-1.2 %	-0.3 %	+1.2 %
Economic growth Switzerland	+0.9 %	+1.4 %	+1.6 %
Inflation Germany	+2.2 %	+2.3 %	+2.0 %
Unemplyment rate Germany	+6.0 %	+6.2 %	+6.0 %

Source: DESTATIS, ifo Economic Forecast Spring 2025, WIFO Economic Survey 3/2025, SECO Economic Trends Spring 2025, IMF World Economic Outlook April 2025

US

US inflation is currently treading water. After dropping to 2.4% in September 2024, it rose to 3.0% this January before falling back to 2.4% in March 2025. It is possible that inflation could go up again as a consequence of the US government's restrictive new tariff policy and its impact on the economy. At its meeting on March 19, 2025, the US Federal Reserve (Fed) saw no grounds to cut the key interest rate and left it unchanged.

In contrast to many other industrialized nations, the US economy continued to perform robustly in 2024, growing by 2.8%. However, forecasts point to downturns for 2025 and 2026. In the long run, the more aggressive US tariff policy is likely to hurt economic growth.

US economic data	2024	2025p	2026p
Economic growth	+2.8 %	+1.6 %	+1.4 %
Inflation (CPI)	2.8 %	3.0 %	3.0 %
Unemplyment rate	4.0 %	4.4 %	4.5 %
Disposable income	+2.7 %	+1.6 %	+1.7 %

Source: The Conference Board Economic Forecast for the US Economy (April 2025); OECD inflation forecast

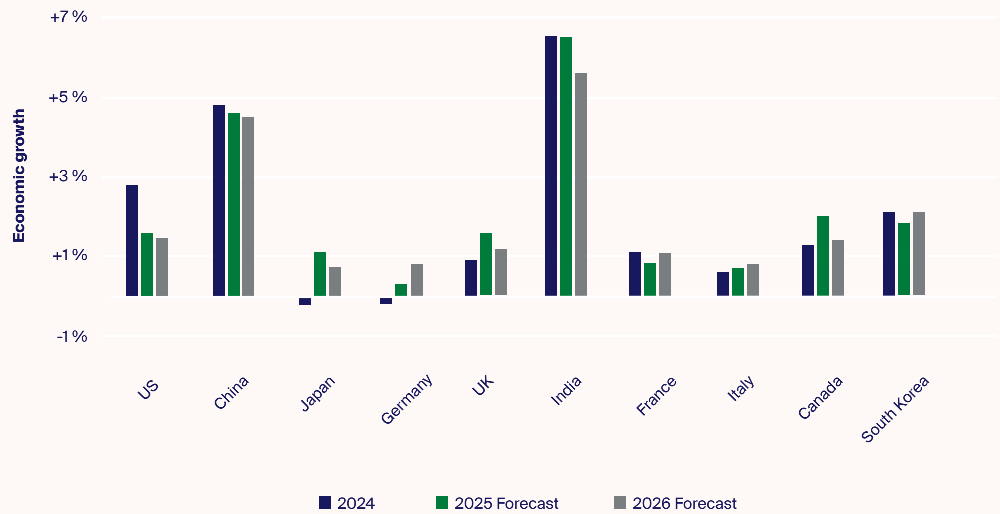
Global trends

The global economy is facing a host of parallel crises. In addition to the ongoing conflicts in Ukraine and the Middle East, US tariff policy in particular is creating considerable uncertainty for economies around the world. The trade dispute between the US and China is central to this: these two countries have been subjecting each other to punitive tariffs since 2018 in order to secure strategic advantages and prevent supposed distortions of competition. These protectionist measures are placing a strain on global supply chains and exacerbating geopolitical tensions.

Growth forecasts paint a mixed picture. European economies can look forward to improving growth rates in 2025, although these will still be very subdued overall. The world's ten largest economies continue to grow more robustly, although the pace of growth is slowing compared with 2024.

Companies with international value chains in particular have to spread their risks widely and take geopolitical factors into account when drawing up plans. At the same time, there is an increasing focus on searching for new, stable markets and on regional cooperation.

Economic growth of the 10 largest economies



Source: International Monetary Fund; The Conference Board – Global Economic Outlook; own calculations and presentations

2. Real estate markets

Real estate markets usually react to macroeconomic trends with a time lag that varies from region to region and segment to segment. In the DACH region, falling numbers of building permits, high construction costs, and supply bottlenecks are shaping the markets. There are signs of stabilization in construction activity and prices, while rents in metropolitan regions continue to rise. In the US market, sales are down slightly but transaction volumes are on the increase. The rental market is characterized by regional differences, with some smaller metropolitan areas recording significant price rises

DACH region

Building permit numbers continued to fall in 2024, confirming the negative trend that dates back to 2022. 176,472 new homes were approved for the year as a whole – 19.6% fewer than in the previous year (2023: 219,561).

In the fourth quarter of 2024, 48,023 residential units and 19,110 residential buildings were approved. This translated into year-on-year reductions in residential units (-11.9%; Q4 2023: 54,533) and residential buildings (-4.2%; Q4 2023: 19,943). The decrease was particularly pronounced for larger construction projects: the number of approvals for residential buildings with three or more residential units fell by 14.8%, and residential units in these buildings also fell by 14.8% (Q4 2024: 31,782 vs. 37,308).

Despite the overall downward trend, there are some initial signs of stabilization: January and February 2025 saw 3.6% more residential units in residential buildings approved than in the same period of the previous year. The figures mainly related to small projects and owner-occupied homes (catch-up effect).

Building permits in Germany, year to date	Residential buildings		Residential units	
	2024 Q4	2023 Q4	2024 Q4	2023 Q4
Total	19,110	19,943	48,023	54,533
Of which 3 or more residential units	2,736	3,210	31,782	37,308

Source: Federal Statistical Office (Destatis)

The residential investment market is picking up, with around EUR 2.522 billion invested in residential portfolios (30 or more residential units) in the first quarter of 2025. Although this figure is around 40% below the long-term average, it still represents an increase of 227% versus the poor prior-year quarter. The number of larger deals has increased significantly.

Sentiment in German housing construction remains strained: the companies responding to the March 2025 ifo survey continue to rate both the business climate and the current business situation as negative, at -43.7 and -42.3, respectively. Under this indicator model, values of around 0 are considered neutral, and negative values indicate a pessimistic view.

Despite the persistently gloomy sentiment, there was a slight improvement on the previous year: in March 2024, the corresponding figures were -57.3 (business climate) and -63.2 (business expectations).

The majority of companies still say that their order backlogs are too low. However, there has been a slight upward trend in recent months, which could indicate some stabilization.

Rents for new builds in the top seven cities showed dynamism. According to data from RIWIS, they rose year on year in all seven cities in the first quarter of 2025. The strongest growth was recorded in Düsseldorf, at 8.6%, and the lowest in Munich (+2.2%).

Purchase prices in the top seven cities also grew again, after falling almost everywhere in the same quarter of the previous year. The cities of Cologne (+3.1%) and Munich (+3.0%) posted the highest growth. A mixed picture emerges in Düsseldorf: despite seeing the biggest increase in rents, it was the only city in the top seven to experience a fall in purchase prices (-1.4%).

Price changes: residential	Purchase prices for new-build properties in EUR/m²		Rents for new-build properties in EUR/m²	
	2025 Q1	2024 Q1	2025 Q1	2024 Q1
Berlin	+2.8 %	0.0 %	+3.6 %	+7.8 %
Hamburg	+1.5 %	-8.1 %	+4.6 %	+4.8 %
Munich	+3.0 %	-1.5 %	+2.2 %	+6.5 %
Cologne	+3.1 %	-5.1 %	+3.1 %	+3.8 %
Frankfurt a.M.	+2.6 %	-2.5 %	+8.2 %	+4.0 %
Stuttgart	0.0 %	0.0 %	+4.0 %	+1.2 %
Düsseldorf	-1.4 %	-1.4 %	+8.6 %	+4.8 %

Source: RIWIS

In Austria, the number of building permits is picking up again. A total of 11,740 new homes were approved in the fourth quarter of 2024, in a year-on-year increase of 16.1%. In 2024 as a whole, 51,473 apartments were approved, in a reversal of the negative trend (2023: 46,565).

At the same time, the number of transactions in Austria fell in 2024. Whereas some 83,000 homes changed hands in 2023, this figure fell to around 64,500 in 2024, reports the Austrian Chamber of Commerce. As in Germany, this can be attributed to more difficult financing conditions.

The Swiss housing market continues to be characterized by a significant shortage of supply. The vacancy rate is only just over 1%, indicating a tight market situation. According to forecasts by the Swiss Association of Builders (Schweizerischer Baumeisterverband), only 42,000 new homes are expected to be built in 2025 – significantly below the 50,000 that are estimated to be needed.

In revenue terms, Swiss residential construction activity increased slightly in the fourth quarter of 2024. Sales totaled CHF 1,970 million, a year-on-year increase of 1.9%. Looking at 2024 as a whole, however, sales from residential construction activity stagnated, with a growth rate of -1.8%.

At the same time, demand for housing continues to increase because of continued immigration. There is therefore no prospect of the near-term easing of the housing market in sight.

US

The US residential real estate market is characterized by a comparatively high ownership rate of around 65%. In all, around 4.92 million residential units (family homes and owner-occupied apartments) were sold in 2024, a slight decline of 0.8% year on year. By contrast, the transaction volume increased significantly to around USD 21.17 billion in the first quarter of 2025, up around 24.5% compared with the same quarter of the previous year.

Even though a smaller share of the population rents than in Europe, the US rental market is very important due to its absolute size. Price dynamics vary greatly from region to region. The Weirton-Steubenville (West Virginia) region recorded the highest increase in rents for multifamily buildings in the first quarter of 2025, at +12.6% year on year. It was followed by Manhattan (Kansas) with +11.3% and Erie (Pennsylvania) with +9.9%.

Average change in metro area	Rents - multifamily, YoY
Top five by rent growth	
Weirton-Steubenville, WV	+12.6 %
Manhattan, KS	+11.3 %
Erie, PA	+9.9 %
Jefferson City, MO	+8.9 %
Bloomsberg-Berwick, PA	+8.1 %
Others	
Miami, FL	+1.5 %
Dallas-Fort Worth, TX	-0.8 %
US average	+1.2 %

Source: CoStar

3. Capital markets and finance

Central banks are currently pursuing a mixed bag of interest rate policies. Whereas the ECB and the SNB are continuing to ease rates in the face of falling inflation, the Fed remains cautious for now because of ongoing inflation risks, caused in part by the current tariff policy.

These monetary policy developments are also reflected in the capital markets, as equity and bond markets are responding with increasing volatility, while crypto assets are softening again after a strong year-end rally.

The recovery in real estate lending continues – albeit amid a more volatile interest rate environment that will be heavily influenced by central banks' future interest rate moves.

Key interest rates

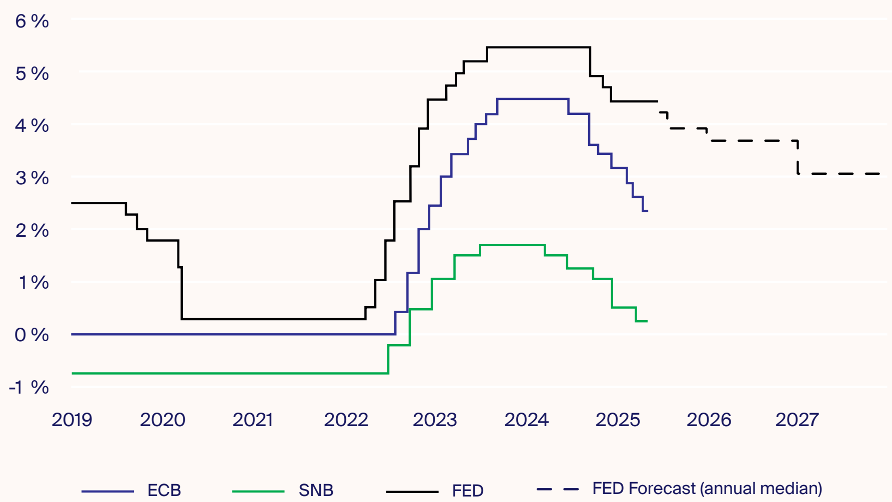
Eurozone inflation fell to 2.2% in March 2025, after briefly rising to 2.5% in January. This is slightly below the prior-year figure of 2.4%. The ECB is continuing its monetary easing in a bid to stimulate the economy. The base rate is now 2.40%, following several cuts since Q2 2024.

The Swiss National Bank (SNB) is also continuing to lower interest rates. After reducing them to 0.5% in December, it made a further 25 bp cut in March 2025 – the fifth in a row. This was motivated by the sharp fall in inflation to just 0.3%, combined with a subdued economy.

In the US, inflation has been between 2% and 3% for months (March: 2.4%). Unlike the ECB and the SNB, the Fed is holding its base rate steady. Given the potential inflationary effects of new tariff measures, the FOMC currently sees no room for interest rate cuts.

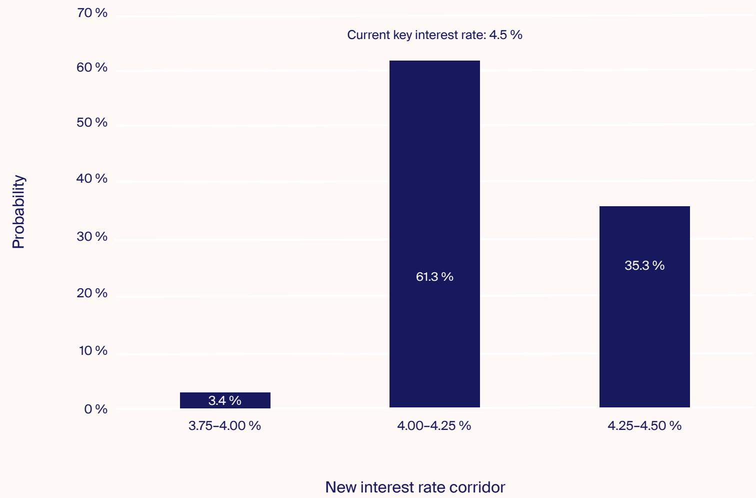
In the medium term, the market is expecting a 4–4.25% corridor. However, the economic consequences of financial and tariff policy remain difficult to gauge.

Key interest rates ECB, FED, SNB and forecast (FED)



Source: ECB, FED, SNB

Probability of key interest rate corridor after FED meeting June 18, 2025 (forecast as of April 25, 2025)



Source: CME FedWatch

Other asset classes

Performance of various asset classes	2024 Q2	2024 Q3	2024 Q4	2025 Q1
DAX	18,291	19,325	20,025	22,163
S&P500	5,475	5,762	5,882	5,612
Interest rate – German government bond (10-year)	2.58 %	2.16 %	2.36 %	2.69 %
Interest rate – US government bond (10-year)	4.47 %	3.79 %	4.57 %	4.27 %
Bitcoin	58,444	56,832	90,306	76,257

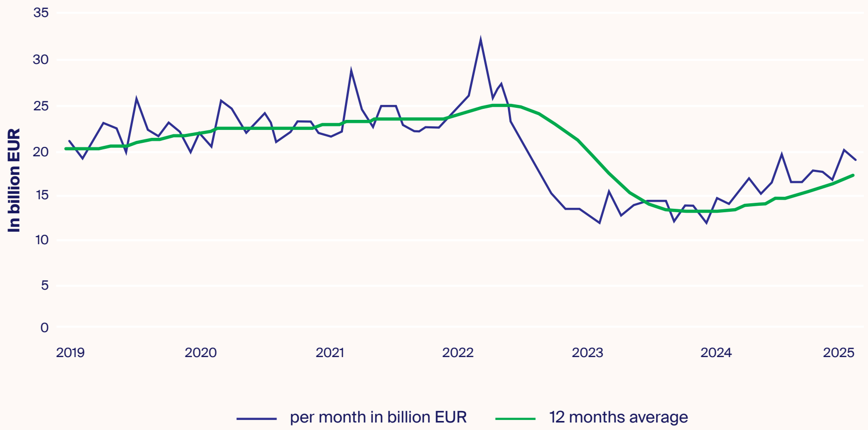
Source: bundesbank.de, finanzen.net, investing.com; closing prices on March 31, June 30, September 30 and December 31

The DAX posted positive performance in 2024 and made further significant gains in the first quarter of 2025. The S&P 500 made strong gains in 2024, only to fall back at the start of 2025. Across the board, stock markets have responded to the announcement and partial introduction of the new tariffs with strong volatility, recording some substantial daily fluctuations.

By contrast, 10-year government bond yields have remained relatively stable. Bitcoin, which briefly broke through the USD 100,000 mark during a strong year-end rally in 2024, had fallen back to around USD 76,300 by the end of the first quarter of 2025.

Property financing

Lending for housing construction to private households



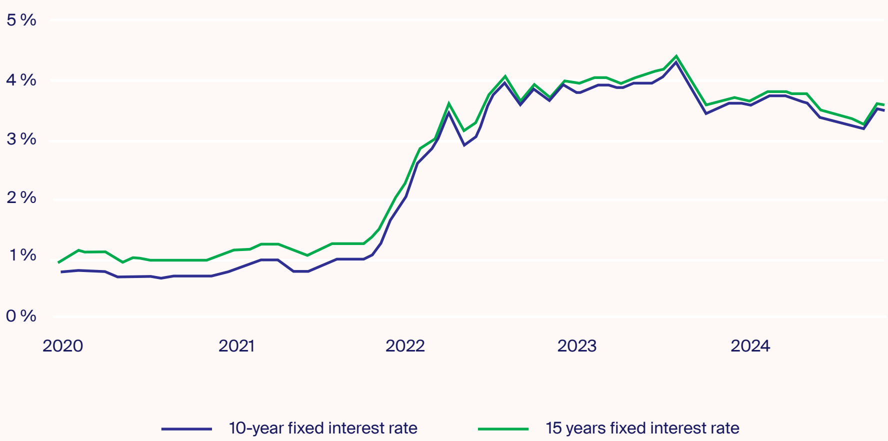
Source: Deutsche Bundesbank

Housing construction loans to private households continued their upward trend in the first quarter of 2025. New loans totaling around EUR 198 billion were issued in 2024 – an increase of more than 23% on the previous year. In the first two months of 2025 alone, the volume was over EUR 19 billion, compared with some EUR 12 billion in the corresponding period of 2024.

Despite this improvement, the interest rate environment remains uncertain. After falling toward the end of 2024, mortgage rates went up again in early 2025. One key factor behind this was the announcement of huge increases in government spending and borrowing, leading to significantly higher public debt. The capital markets' reaction was not long in coming, and interest rates on real estate loans also jumped sharply in the short term. Interest rates on loans with a 10-year fixed rate are around 3.6%.

As public debt levels are rising very swiftly, government bond yields cannot be expected to record lasting falls, regardless of key interest rate policy. Mortgage rates, which have a long-term focus, will likely follow this core trend.

Mortgage financing interest rates (offered contracts)



Source: Interhyp

Authors

PROF. DR. STEFFEN METZNER MRICS

Head of Research Empira Group
steffen.metzner@empira-invest.com

NOAH-DAVID SCHWILL

Research Analyst Real Estate Empira Group
noah-david.schwill@empira-invest.com

Contact

Empira Group
Gubelstrasse 32
6300 Zug
Switzerland

Tel. +41 41 72875-75

Empira Asset Management GmbH
Kurfürstendamm 213
10719 Berlin
Germany

Tel. +49 30 221 8499-10

info@empira-invest.com / www.empira-invest.com

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