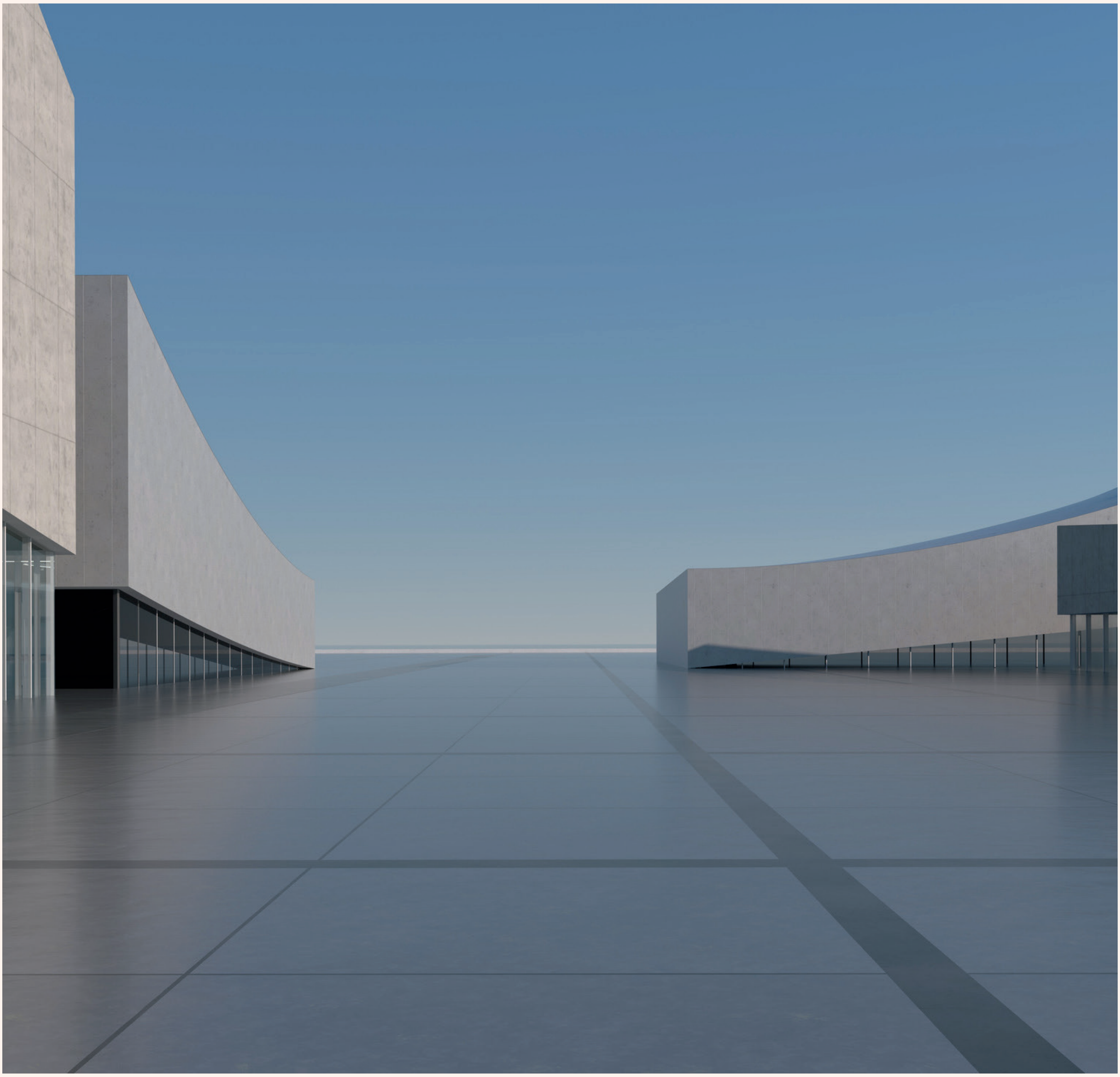


Empira Group Research: Economy & Real Estate

Quarterly View 2024 / Q4

EMPIRA

Dear Reader,

the German economy continues to show clear signs of stagnation, while complex global challenges are emerging that influence both national and international markets. Despite a weakening economic environment, there are initial signs of stabilization in the real estate industry, particularly with regards to demand and price trends.

The study focuses on the DACH region, which exhibits diverse economic realities. While Germany continues to struggle with declining growth and structural weaknesses, Switzerland appears more stable, supported by a strong export sector and dynamic construction activity. Austria, on the other hand, is affected by a prolonged recession, particularly impacting the construction sector.

In the global context, economic development remains marked by geopolitical tensions and high political uncertainty. At the same time, the U.S. real estate market is stabilizing, while European real estate markets continue to face regulatory hurdles and supply shortages.

This study aims to provide insights into recent macroeconomic developments and their impact on the real estate sector. It examines the current state of the markets, analyzes the underlying macroeconomic factors, and offers forecasts for the coming years. Special attention is given to residential real estate markets, whose stabilization in Germany and the U.S. is emerging despite global uncertainties.

Regards

Lahcen Knapp
Founder and Chairman, Empira Group

1. Overview

Germany's general economic situation continues to show signs of stagnation, although there are the beginnings of some positive trends emerging in the real estate sector. The latest data point to price stabilization and rising demand for properties.

Economic climate

Although inflation rates are falling and monetary policy measures have been taken to boost the economy, the economic situation remains fraught. Significant differences are also emerging between industrial countries in terms of their economic recovery, as a result of specific structural weaknesses.

DACH region

The economic outlook in Germany remains downbeat this year. Although the federal government delivered an optimistic growth forecast of +0.3% for 2024 at the start of the year, the autumn projection is now forecasting a further contraction of -0.2%. According to the Joint Economic Forecast produced for the German finance ministry, this is attributable firstly to growth in private household and government final consumption expenditure being lower than initially forecast (+0.2% instead of +0.9% for private households; +0.4% instead of +0.7% for government). Secondly, gross investment in fixed assets has continued to decline in general (-0.7%), which is reflected in investment in construction and in machinery and equipment (both -0.4%). This weakness will also hurt economic growth over the next few years. Growth of just +1.1% is anticipated for 2025.

DACH economic growth	2023	2024p	2025p
Economic growth – Germany	-0.3 %	-0.2 %	+1.1 %
Economic growth – Austria	-1.0 %	-0.6 %	+1.0 %
Economic growth – Switzerland	+1.2 %	+1.2 %	+1.6 %
Inflation – Germany	5.9 %	2.2 %	2.0 %
Unemployment rate – Germany	5.7 %	6.0 %	6.0 %

Source: German federal government autumn projection; German Federal Statistical Office (Destatis); Austrian Institute of Economic Research (WIFO) economic outlook (3/2024); Swiss State Secretariat for Economic Affairs (SECO) economic trends for autumn 2024

The outlook for neighboring Austria is even less favorable. Having suffered a significant recession in 2023 (-1.0%), the Austrian economy is showing no improvement this year. While the forecast in June was for zero growth, this has now been downgraded to a further decline of -0.6% for 2024. Trade (-5.7% year on year) and construction investment (-9.3% year on year) are having a particularly negative impact. Unemployment is also likely to be higher than last year (7.0% versus 6.4%).

A different picture emerges for Switzerland, where economic growth is expected to come in at +1.2% for 2024 and +1.6% for 2025, driven by strong goods exports (+5.1%), private consumption (+1.5%), and growing momentum in construction investment (+0.5%).

Inflation rates in all three countries of the DACH region are now around the 2% target set by the European Central Bank (ECB). In Switzerland, the sustained upward pressure on the Swiss franc means that deflation can no longer be ruled out: inflation fell from +1.4% year on year in April to 0.8% by September.

US

Although the 2.5% inflation rate in the US remains above the target of 2.0%, the trend is towards lower price growth. The Fed therefore decided to lower key interest rates by 50 basis points in September. Its central bankers believe that, if monetary policy is eased appropriately, there is good reason to expect inflation to fall further, while the labor market remains strong.

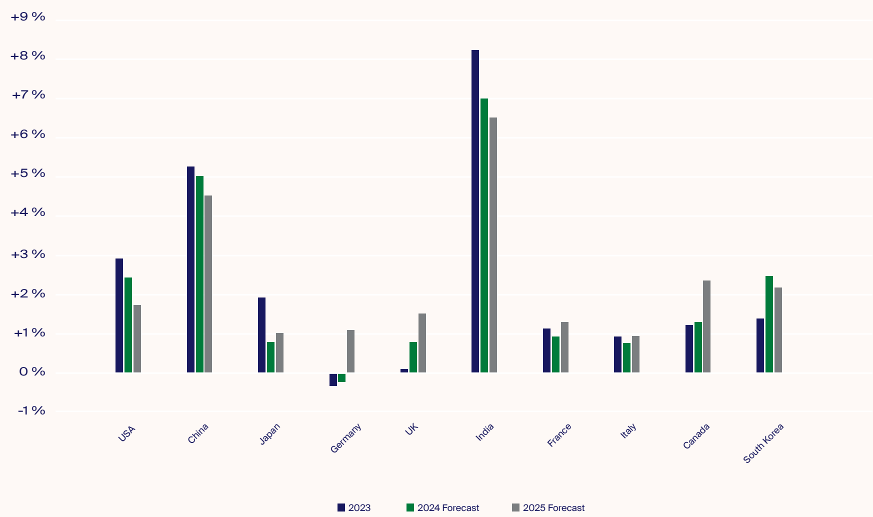
With forecast growth of 2.5% this year, the US remains the top performer among western industrial countries.

Forecasts for the next few years are beset by political uncertainty, as economic trends could be strongly affected by the outcome of the upcoming presidential elections.

US economic data	2023	2024p	2025p
Economic growth	+2.9 %	+2.5 %	+1.7%
Inflation (CPI)	4.1 %	3.0 %	2.2 %
Unemployment rate	3.6 %	4.1 %	4.1%
Disposable income	+3.8 %	+2.4 %	+2.0 %

Source: The Conference Board Economic Forecast for the US Economy (October 2024); OECD Inflation Forecast

Growth in the world‘s ten largest economies



Source: International Monetary Fund; The Conference Board Economic Forecast for the US Economy (October 2024); German federal government autumn projection; own calculations and illustrations

Global development

The global economic situation remains unstable, influenced by international challenges such as the Ukraine conflict, the war in the Middle East, and political tensions between western nations and China.

In Europe in particular, weak growth forecasts, and recent EU and national election results indicate rising economic and political tensions, which are being intensified by structural problems.

2. Real Estate Markets

The real estate markets regularly follow economic trends, sometimes with a time lag and with differing intensity depending on the region and usage type.

Building permits in Germany, year to date	Residential buildings		Residential units	
	2024 Q2	2023 Q2	2024 Q2	2023 Q2
Total	19,248	23,917	43,674	55,622
Of which 3 or more residential units	2,584	3,137	28,492	35,177

Source: Federal Statistical Office (Destatis)

Change in prices	Purchase prices for new-build properties in EUR/m²		Rent for new-build properties in EUR/m²	
	2024 Q2	2023 Q2	2024 Q2	2023 Q2
Berlin	0.0 %	-1.4 %	+3.7 %	+10.6 %
Hamburg	-7.5 %	+0.7 %	+4.2 %	+5.0 %
Munich	0.0 %	-2.4 %	+4.1 %	+9.0 %
Cologne	-3.0 %	0.0 %	+3.8 %	+1.1 %
Frankfurt a.M.	-1.3 %	-4.8 %	+5.1 %	+0.6 %
Stuttgart	0.0 %	0.0 %	+2.3 %	+9.5 %
Düsseldorf	-1.4 %	-7.8 %	+2.0 %	-1.4 %

Source: RIWIS

DACH region

The number of building permits issued in the second quarter was 43,674 residential units in 19,248 residential buildings. This corresponds to year-on-year decreases of 21.5% and 19.5%, respectively. As a result, the excess demand in the German real estate market, which has been ongoing for several years, will continue to increase, particularly in the major cities. The ifo Institute for Economic Research is forecasting 225,000 housing completions for 2024, but expects this figure to drop to 175,000 units by 2026. The multi-family segment is playing a prominent role: although just 13% (approximately) of all approved buildings are residential buildings with three or more units, 65% of all approved homes are in multi-family buildings.

Sentiment in the housing construction market remains pessimistic. While the indicators for business climate (-47.9 points) and business expectations (-48.4 points) are slightly above year-earlier levels, 50.6% of companies reported a lack of orders in August, and 11.7% are facing challenges as a result of canceled orders. This indicates that the crisis in house-building is continuing.

In the first three quarters of the year, EUR 5.9 billion was invested in housing portfolios with 30 or more units, representing an increase of 50% compared with the same period in 2023 but a decrease of 51% compared with the long-term average. This points to ongoing stabilization of the German housing investment market.

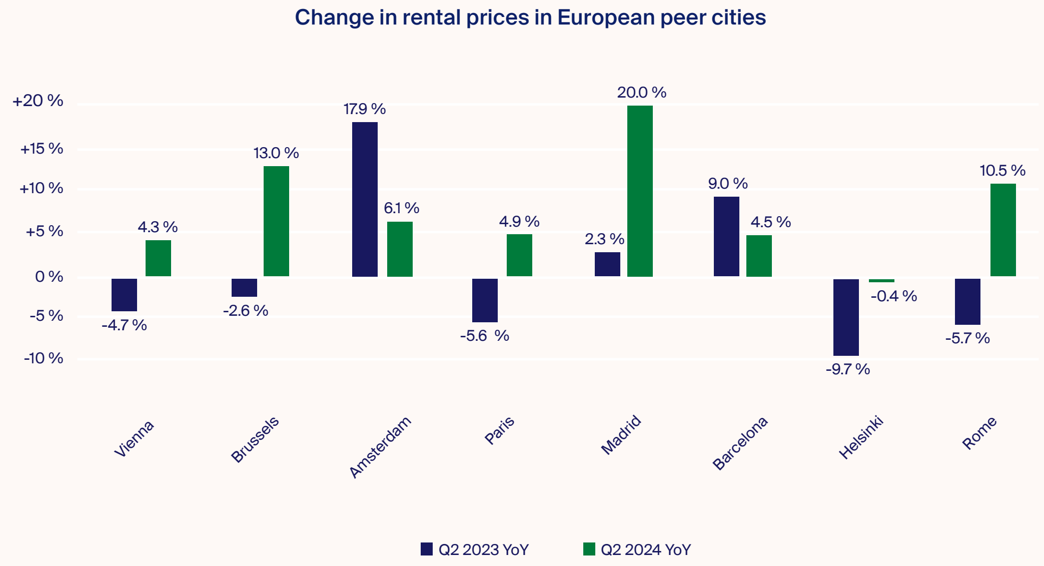
Purchase prices in four of Germany's top seven cities fell in the second quarter. The declines were steepest in Hamburg (-7.5%) and Cologne (-3.0%), while prices held steady in Berlin, Munich and Stuttgart.

The rental price index has climbed by around 2.2% for all German locations over the past 12 months. This figure is exceeded in all German A locations, with the exception of Düsseldorf. Frankfurt am Main (+5.1%) and Hamburg (+4.2%) recorded the biggest rises in rental prices.

In Austria, the number of building permits (10,673) is around 18% below the year-earlier figure (12,992). This downward trend will result in a shortage of supply in the next few years. Whereas 43,410 residential units were completed in 2023, 37,100 units are forecast for this year, and just 24,300 units for 2025.

There are considerable regional differences in price increases for newly built homes in Austria.

Nationally, prices rose 5.0% year on year in the second quarter of 2024. Salzburg recorded the sharpest increase (+11.5%), whereas Tirol saw the steepest decline (-7.2%). In Vienna, the average price of a new home was EUR 7,070/m², representing a year-on-year decrease of around 1%.



Source: own illustrations based on HousingAnywhere

There is also excess demand in Switzerland, with cities like Zurich and Winterthur reporting vacancy rates of just 0.07% and 0.14%, respectively. According to the Swiss Association of Builders (Schweizerischer Baumeisterverband, SBV), 50,000 residential units would need to be built each year to eliminate the housing shortage, against a forecast of 40,000 new units to be built in 2024. There are no expectations of a trend reversal in 2025 either.

Rents in some European peer cities are considerably more volatile than in the German markets. For example, cities such as Madrid and Brussels have recorded double-digit increases over one year.

US

The residential property market in the US is less regulated than its DACH counterpart. The various metro areas are very heterogeneous in their socioeconomic and structural fundamentals, which means different markets have differing levels of momentum.

Markets like Bloomsburg-Berwick in Pennsylvania and Kahului-Wailuku-Lahaina in Hawaii posted annual rental growth of 17.1% and 13.4%, respectively, whereas asking rents in the weakest location, Punta Gorda in Florida (for the fourth time in succession), are down 6.8% year on year.

Two of the five most dynamic metro areas are located on the East Coast, two are in the Sun Belt, and one is in Hawaii.

After two difficult years, some stability has returned to the multi-family segment. Sales in the third quarter totaled some 5,818 transactions, just short of the year-earlier level. The sales volume exceeded USD 60 billion in the first nine months of 2024, almost equaling the level reached during the same period in 2023.

Average change in metro area	Rents – multi-family, YoY
Top five by rent growth	
Bloomsburg-Berwick, PA	+17.1 %
Kahului-Wailuku-Lahaina, HI	+13.4 %
Hinesville, GA	+1.8 %
Hot Springs, AR	+9.5 %
Wheeling, WV	+9.4 %
Others	
Miami, FL	+2.4 %
Dallas-Fort Worth, TX	-1.2 %
US average	+1.1 %

Source: own illustrations based on CoStar

3. Captial market and Finance

While the ECB already cut its key interest rate for the third time this year in September (June 12: 25 bp; September 18: 60 bp; October 23: 25 bp), the Fed is now also beginning to adjust its interest rate levels. The central bankers decided on a key interest rate cut of 50 basis points. Further reductions are expected to follow in the coming quarters.

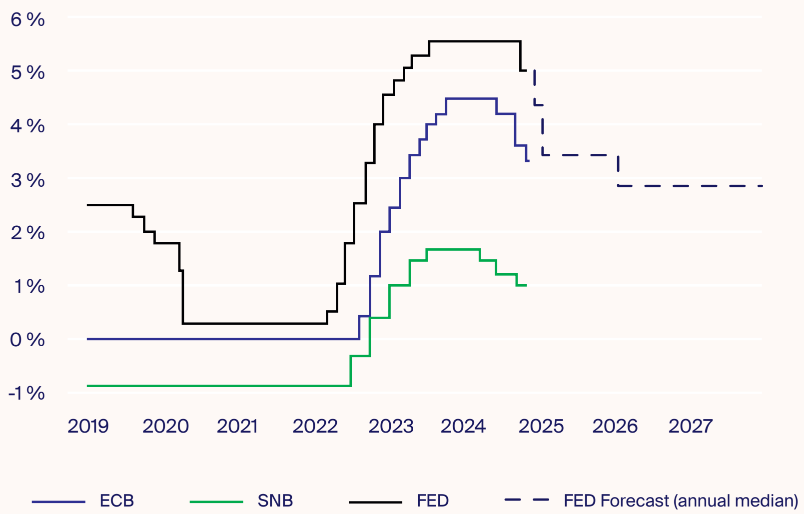
Key interest rates

Inflation in the Eurozone stood at +1.8 percent in September, significantly lower than the previous year's value of +4.3 percent. Driven by this declining price momentum and the resulting reassessment of inflation prospects, the ECB has continued the path of successive interest rate cuts initiated in the second quarter and reduced the deposit rate by another 25 basis points in October. In light of downwardly revised growth forecasts for the Eurozone, the Council announced that future decisions would be data-dependent.

The Fed has also entered the phase of interest rate cuts and reduced its key rate by 50 basis points in September. The interest rate forecast for this and the coming years was also adjusted. For the full year, a median interest rate of 4.4 percent is expected (previously 5.1%), for 2025, 3.4 percent (previously 4.1%), and for 2026, 2.9 percent (previously 3.1%). Although the Board acknowledges existing problems, such as still slightly elevated inflation, it is confident that further rate cuts can be implemented in the near future.

This also shows much greater willingness to take significant action on interest rates than at the previous board meetings in June and July. With the exception of one committee member, who preferred an interest rate cut of just 25 basis points, all board members favored adjusting the deposit rate by 50 basis points.

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



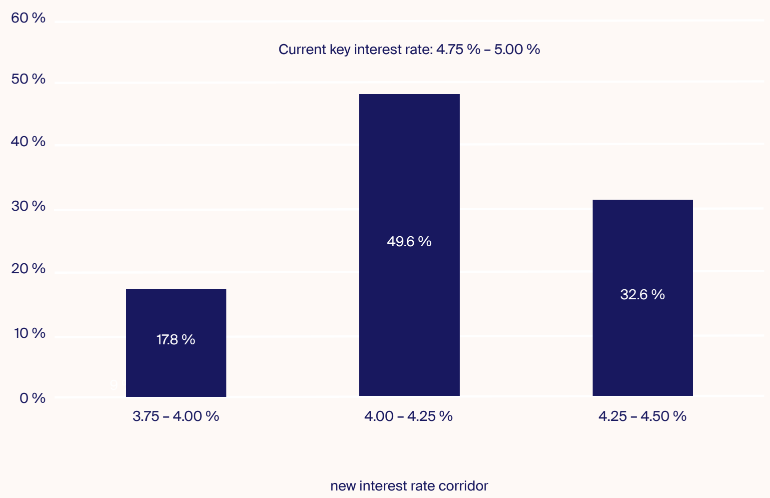
Source: own illustrations based on ECB, FED, SNB

The financial markets are also confident that the Fed will lower interest rates further. An interest rate corridor of 4.00% to 4.25% by the end of the year is seen as the most likely scenario, which corresponds to 75 basis points of cuts from the current level.

At the end of September, the SNB lowered its key rate for the third time this year: a cut of 25 basis points to 1.00%. It was reacting to the continued easing of inflationary pressure and the Swiss franc's appreciation against the US dollar and the euro over the past three months.

Yields on government bonds have been stable for some time. By contrast, the DAX and S&P 500 have recorded impressive growth over the past 12 months. The leading German index has grown by over 20% year on year, while the S&P 500 has gained over 30%.

Probability of key rate corridor for the Fed meeting on November 7, as of October 1, 2024

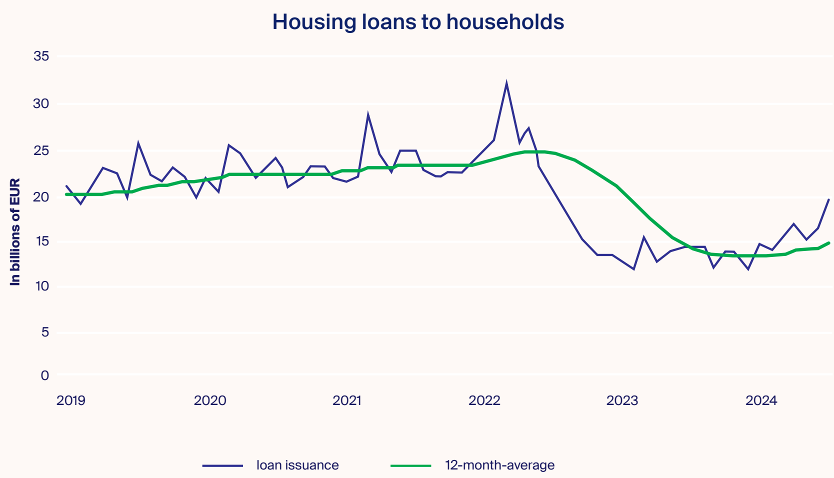


Source: own illustration based on CME FedWatch

Other asset classes

Performance of various asset classes	2023 Q4	2024 Q1	2024 Q2	2024 Q3
DAX	16,752	18,492	18,235	19,325
S&P500	4,770	5,254	5,460	5,762
Interest rate – German government bond (10-year)	2.11 %	2.36 %	2.49 %	2.30 %
Interest rate – US government bond (10-year)	4.01 %	4.20 %	4.30 %	3.96 %
Bitcoin	38,253	66,023	5,444	56,832

Source: finanzen.net, investing.com, closing prices on 31/03, 31/06, 31/09, 31/12, Banque Centrale du Luxembourg

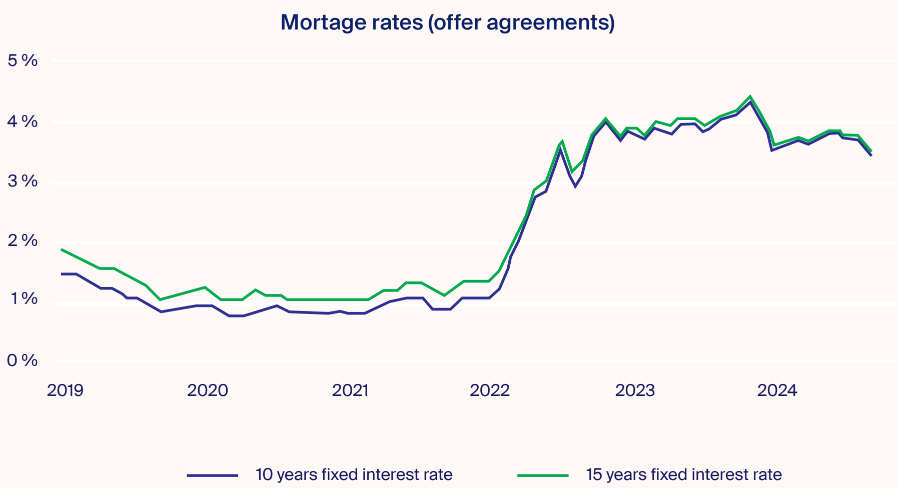


Source: own illustration based on Deutschen Bundesbank

Property finance

Lending to private households for housing construction has risen steadily since the start of 2023, reaching EUR 19.4 billion in July 2024 – significantly higher than the 12-month average of EUR 14.9 billion. Although it is still well below its March 2022 peak (EUR 32.3 billion), continued recovery is anticipated given expectations of rate cuts.

The level of interest on real estate loans with a 15-year fixed rate is currently 3.5%, which is slightly below the rate at the start of the year (approx. 3.6%). A sideways trend can be observed over the course of 2024, and this is likely to continue until the end of the year. Trends in 2025 will be largely driven by long-term forecasts for the interest rate environment and central banks' future key rate policies.



Source: own illustration based on Interhyp

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