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Investment – Real Estate

Market Report Nuremberg
2023 | 2024



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Wissen, wer was wo.

Editorial



Dear Investors,

It's like travelling in time: in 2023, Nuremberg's real estate industry was beamed back to the past. The value of properties has decreased so drastically that we feel like we are being transported back to the turn of the millennium.

We need to rethink our approach. The calculations we made when the economy was booming no longer apply. Properties that were priced on this basis are now unsaleable. Those who do not wish to sit out the current situation on the real estate market have to face reality and start recalculating.

Despite the crisis mode we are facing, there is also good news: project costing parameters have become more reliable. We have a clearer idea of what is paid on the capital market. Interest rates and construction costs will not rise any further. Overall, we have more planning security now than we did a year ago.

And something else should give us hope: Nuremberg's population is growing. More inhabitants mean a need for more flats, more offices, more kindergartens and more restaurants. Even if the share of real estate in investment portfolios is waning: real estate continues to fulfil basic human needs and therefore remains indispensable. One thing is certain: the construction and real estate industries will always exist.

Therefore, what we urgently need to do now is to stand up, straighten our crowns and face the future with open eyes. Crises come and go. Whether we remain or not is in our own hands. What we need is entrepreneurship!

Kind regards,

A handwritten signature in black ink, appearing to read 'W. Küspert', written in a cursive style.

Wolfgang P. Küspert,
Managing Director



Overview | Investment Market in Nuremberg| Indicators

	2019	2020	2021	2022	2023	Forecast
Transaction volume in EUR million	2,116	1,563	1,393	1,136	319	↘
Most important asset classes in EUR million	Office 1,120	Office 739	Residential 525	Residential 480	Residential 221	Residential ➔
Prime yield – office in %	4.1	3.3	3.1	3.3	4.7	➔
Inhabitants in thousands	536	532	530	541	544	
Employees subject to SSC in thousands	315	309	312	318	319	
Unemployment rate in %	4.9	6.2	5.3	5.5	6.1	



Transaction volume

Hardly any transaction activity on idle markets – momentum from government purchases

In 2023, institutional investors and professional private investors achieved a transaction volume of €319 million on the Nuremberg investment market. This represents a significant decline of just under 72% compared to the previous year, and even more than 77% in comparison with the average of the five previous years. Following a series of vital years with volumes in the billions, such a figure marks a turning point in Nuremberg, as it has in many other locations. Few large-volume transactions were registered, and these were limited to the residential real estate segment, which topped the list with global sales totalling just over €70 million and €30 million, respectively.

Market activities generally focussed on the institutional residential segment, which consolidated its leading position, accounting for almost 70% of the market: a transaction volume of around €221 million for commercial residential property portfolios, residential complexes and large apartment buildings corresponds to a decline of 54% compared to the previous year. Significant contracts were limited to two new building projects in the residential segment, which were purchased by the state housing company Bayernheim and totalled around €100 million, i.e. nearly half of the residential transaction volume.

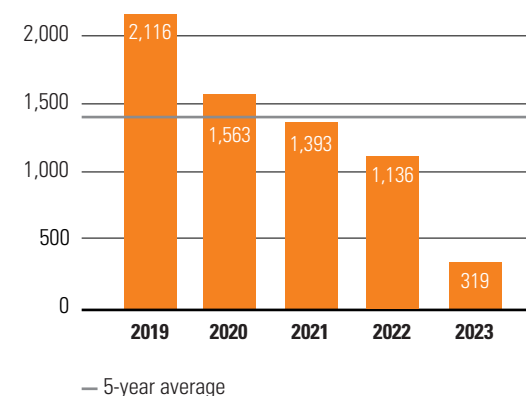
Following a slight increase in office real estate investments in the previous year, the segment virtually became irrelevant in the course of 2023: at €43 million, around 13% of the total transaction volume was invested in office and administrative buildings. However, this figure is just over 87% lower than in the previous year. Economic concerns, changing demands in terms of land utilisation and floor plans, as well as the circumstance that the existing supply of office space is becoming obsolete due to the need for energetic modernisation are likely to have been office-specific reasons added to a general perception of risk on the capital market. The largest transaction in this sector took place between two owner-occupiers and just barely reached a volume in the double-digit millions.

Project development properties achieved a transaction volume of roughly €32 million in 2023 (72% less than the previous year). The market share remained almost constant at 10%, but this transaction activity harbours relatively little development potential for the future and therefore little immediate sales volume for the coming years.

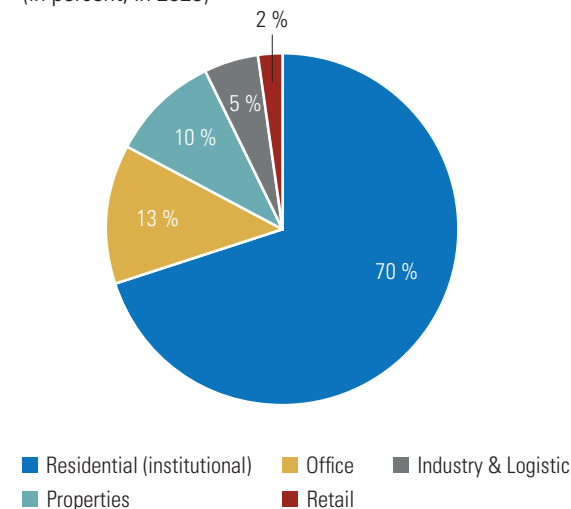
At €16 million, industrial and logistics real estate achieved a market share of just under 5%, thereby falling 91% short of the previous year's result, which had, however, included a strong one-off effect in the high double-digit million range. Both the land market and the investment market in this segment are generally experiencing a very strong demand in the city and the entire metropolitan region.

With a volume of well under €10 million each, the retail and hotel segments were virtually non-existent in 2023.

Transaction volume (in € million)



Transaktion volume by asset class (in percent, in 2023)



Supply and demand

Rising purchase yields on the market – supply and demand barely measure up to each other

In view of the low number of transactions, many segments offer no broad base of data. However, available observations show that purchase price factors are falling across practically all segments, with initial yields rising accordingly.

In 2023, the majority of institutional investments in residential property were made in the city of Nuremberg at purchase price factors that enabled an initial yield ranging between 3.8% and 5.9% (with predominantly low ticket sizes). Therefore, the observed purchase prices for existing properties fell by around four to five annual rents compared to the previous year. Higher purchase price factors could only be achieved in the area of the subsidised construction of new residential buildings (EOF residential), which – at about 2.9% – was the only segment to record a prime yield that was basically the same or even marginally lower (minus 10 basis points).

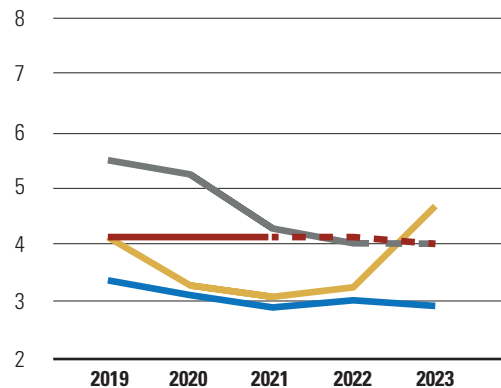
Where transactions in the office segment were effected at all, the majority of initial yields lay between 5.8% and 7.1%, with two further attractive properties (with roughly core plus quality) at approximately 4.7%. However, as the properties sold in 2023 did not include any core real estate or real estate with outstanding ESG compatibility, this figure bears only limited comparison to the previous year's prime yield of 3.25% (plus 145 basis points).

Owing to the very low number of cases, it is particularly difficult to determine the yield development for the industrial and logistics real estate segment. In particular, because no high-quality, contemporary building space was sold in prime locations, no prime yield was registered that is comparable with the previous year's figure. The few observations made speak in favour of continued interest in such properties, as even medium-quality properties still yielded around 5.1% – a figure that is slightly above the level of the previous year and even below many office yields.

A similar challenge is affecting the retail segment, which registered a modest number of transactions with initial yields ranging between 5.3% and 7.7%. Here, too, there were no prime properties on the market that would be suitable for determining a reliable prime yield, particularly no high street or local retail properties.

For the retail segment and industry and logistics segment, therefore, the previous year's prime yields are continued in virtue of the current transaction/data situation.

Prime yields by asset class
(in percent)



■ Residential (institutional) ■ Office ■ Industry & Logistic
■ Retail ■ Hotel

* Gross initial yields (not accounting for management and incidental acquisition costs)

--- Note: A gross prime yield for the retail segment and the industry and logistics segment cannot be reported for 2023 due to the lacking transaction volume.

Due to the absence of significant transactions in the hotel segment in recent years, no further yields are specified for this year.





Buyer groups

Institutional buyers not in the market – owner-occupiers, family assets and project developers among themselves

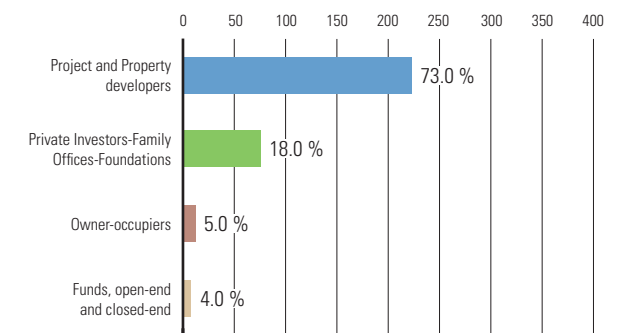
While institutional investors such as open-end and closed-end real estate funds still clearly remained at the top of the list of buyers up to 2022, they had all but disappeared from the Nuremberg transaction market in 2023: around €13 million in new investments were attributed to these companies, which represents a decline of a little over 97% compared to the previous year, actually placing them last on the list. They only accounted for around 4% of the already low transaction volume in the overall market (previous year: 61%). Investors with a strictly financial agenda seem as yet unable to find purchase prices on the market that are appropriate in terms of their own risk-return analysis and opportunity assessment and that would therefore be suitable for transactions.

Project and property developers led the field of players, accounting for the lion's share of 73% of purchases totalling just under €233 million (previous year: €246 million, 24%). This category includes residential construction companies as well as residential real estate companies that maintain existing properties, with Bayernheim in particular standing out as a government player in 2023.

Family offices and professional private investors achieved a transaction volume of €58 million in 2023 and thus a market share of just over 18%. The volume roughly halved in comparison to the previous year; in relation to other players, however, private asset management companies saw a slight increase (previous year: 12%).

As in the previous year, direct investments by owner-occupiers, banks and insurance companies were modest in 2023. Owner-occupiers attracted slightly more attention than in 2022, with a buyer market share of just under 5% (previous year: less than 3%) and a transaction volume of just over €14 million – roughly half that of the previous year.

Buyer groups (Euro in millions / proportion in percent, in 2023)



Seller groups

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

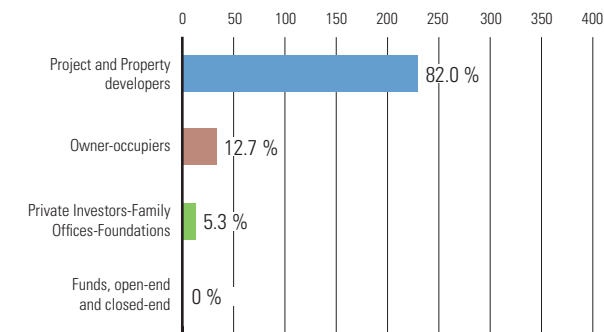
Though previously hard to imagine, in 2023 it became reality: institutional investors such as real estate funds did not enter into a single transaction as sellers. Thus the transaction volume of this seller group amounted (for the first time in this research) to zero (-100%).

Despite an overall sharp decline in market activity, project developers were once again the leading players on the seller side in 2023; at around €261 million, they accounted for roughly 82% of the total transaction volume (previous year: around two thirds).

Highly conspicuous shares of this sales volume originated from the global sale of residential developments. At any rate, there was no evidence of a mass sale or resale of non-performing projects. In this context, however, it should also be noted that the development pipeline of property developers is no longer well equipped for the future.

Similar to the buyer side, the volume of owner-occupier sales dropped considerably to around €41 million, although – at more than 12% – it represented a more noticeable share (previous year: 9.0%). At approximately €17 million, private investors and family offices were not a representative player on the institutional seller side (previous year: €145 million, 13.8% share).

Seller groups (Euro in millions / proportion in percent, in 2023)



Conclusion

Modest expectations for 2024 – rays of hope for interest rates and up-to-date properties

The complex situation faced by the real estate industry is also having a noticeable impact on the market in Nuremberg. Challenging conditions prevailing in Germany, such as the uncertainty generated by volatile inflation, the current shortage of skilled labour, the regulation of the energy industry and the resulting sharp rise in construction costs are being compounded by the social and economic challenges resulting from a geopolitical situation fraught with risk. Nevertheless, after ten key interest rate increases in a row, the ECB has again assumed a market-monitoring role, with capital market interest rates easing somewhat towards the end of 2023.

Nevertheless, the challenges in project development as well as those affecting existing investments remain immense. Against the backdrop of rising yield expectations, it is still nearly impossible to factor in the combination of capital requirements and standard market capital costs in our calculations. Only very up-to-date properties with high energy-efficiency standards or state-subsidised residential models promise reasonably negotiable exit prices.

At the same time, the supply side is not yet prepared to accept purchase price reductions to any great extent. In this respect, long-term financing in particular mitigates a great deal of the selling pressure. As a result, the market remained in a state of stagnation on both sides for all four quarters of 2023, causing volumes to slump by almost 72% compared to the previous year. Moreover, due to the continuing complex situation, the frequently cited bottoming out of prices in the Nuremberg market is as yet unlikely to have come to an end.



Mood barometer

Expectations for 2024 therefore remain rather cautious. As in previous years, we conducted a survey of numerous market players for this market report to get an overview of their appraisal of future prospects. According to the findings, only around 3% of those surveyed stated that they intend to invest more capital for new investments in the Nuremberg market in the coming year. A slight majority of 53% have little to no budget available for this. Nevertheless, roughly 44% see at least the possibility of constant new investment.

The clear majority of around 70% of the respondents forecast falling purchase price factors for office real estate, as well as in the retail segment (67%) and for hotels (52%). With regards to institutional investments in residential property, “pessimists” (48%) and “optimists” (stagnating or rising prices, 52%) are roughly balanced. In addition to residential real estate (14%), the respondents only considered rising purchase price factors to be possible at all for industrial and logistics properties (13%) and healthcare real estate (18%), and such views are in the minority.

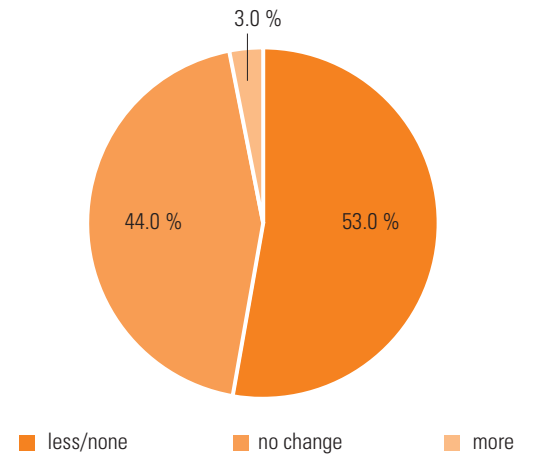
The opinion that elicited the highest level of agreement and was shared by the most respondents was that there is likely to be an increase in insolvencies, business closures or even mergers among project developers in 2024 (83.5% agreement). At the same time, the expectation that the demand for new developments in residential construction or commercial real estate, even with undeveloped properties, will decrease in 2024 seems to be potentially held by the majority (residential construction: 77.8% agreement; commercial: agreement: 73.9%). The short-term future prospects for new construction projects are therefore rather modest.

If the respondents prove correct, pricing on the market will continue to drag on, and the supply of available properties will not rise sharply in the coming year. Although the respondents exhibited a rather large discrepancy in their opinions here, they tended to slightly agree more for commercial real estate than for residential real estate that the rise in financing costs could lead to a sharp increase in the available supply of existing properties in 2024 (residential: agreement 57.6%; commercial: agreement 62.9%).

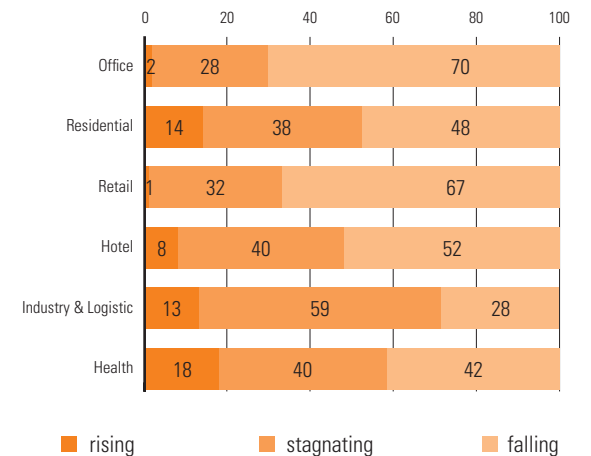
Interestingly, many of those surveyed stated that the ratio of real estate in their own investment portfolio is not on the decline (41.1% agreement), but that they do expect this to be the case for institutional investors as a whole (63.6% agreement).

In light of the rather negative appraisals and, in part, quite mixed responses, it would not be surprising if 2024 were to see the market remain in the holding pattern it has been stuck in rather than returning to a state of flourishing activity. As long as their own financing structure allows, many players will presumably maintain their real estate holdings in the hope that capital market conditions and achievable exit factors will have improved again by the time supplementary financing is available. Either way, the effects of the unfortunately still unpredictable conditions prevailing in Germany – in particular developments on the labour, sales and procurement markets – must not be underestimated in 2024.

Investment budgets for Nuremberg in 2024



Short-term expectations as to the development of purchase price factors (in percent)





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