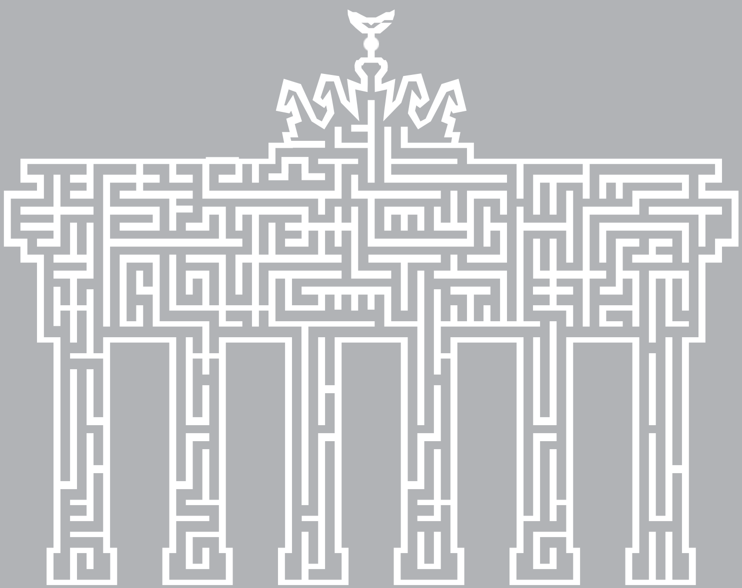
MARKET REPORT GERMANY 2022



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This market report has been prepared by the experts at KENSTONE Real Estate Valuers (KENSTONE). The report is based on centrally evaluated data from valuation reports and publicly available information. The statements from these sources were brought together, evaluated and the results of the analysis presented in the market report. It gives the reader a general overview of the situation in the investment, office, retail, logistics, hotel and residential markets in Germany. The focus is on the eight German locations Berlin (B), Dusseldorf (D), Frankfurt (F), Hamburg (HH), Cologne (K), Leipzig (L), Munich (M) and Stuttgart (S).

Information on various European real estate markets at quarterly level is provided by the market report of European Valuers Alliance (EVA) - the merger of nine major valuation companies of the largest European real estate markets. This can be found under “newsroom” at euvaluersalliance.com.

PREFACE

The last decade - although not entirely without problems and geopolitical squabbles, and leaving aside the climate crisis - has been a good one, economically speaking. Prosperity has risen (especially in the wealthy countries), unemployment has reached unimaginable lows and the real estate markets have rushed from one record result to the next. People have almost forgotten that things can be done differently. A small drawback: market reports became increasingly boring.

Instead, all the catastrophes that have failed to materialise in the last ten to twelve years now seem to be coming upon us in a bundle, accompanied by major "changes of times":

The never-ending Covid 19 pandemic, which inflicted countless human tragedies, ripped through society and showed us very clearly not only the limits of the capacity of our health systems and our medical capabilities in general, but also the immense economic dependencies due to our highly efficient but only partially resilient supply chains - with harsh economic consequences. The end of globalisation? Probably not completely, but certainly an intensification of the increasing protectionism that has been observed for several years. And certainly the beginning of more diversification (of supply chains as well as export/import markets and, in the course of this, a more regional reference).

Many saw light at the end of the pandemic tunnel in 2022, but "thanks" to BA.4 and BA.5 this does not seem to be in sight, even if it has become somewhat brighter around us. With Covid-19 still breathing down our necks, we went straight into the next tragedy: Russia's invasion of Ukraine. This crisis, too, has enormous economic (and social) consequences due to existing dependencies (supply of energy, raw materials and food; supply chains): the security of energy supply is no longer guaranteed, inflation is being driven primarily by rising raw material, material and energy prices. But the scope of this crisis is even more fundamental: it shakes the democratic heart and the values of the "western" world. The sometimes strongly divergent attitudes to human rights and the sometimes quite different moral values, which have so far been rather subordinated to economic relations, are coming more into focus as a result of the Ukraine war. This, too, will not mean the complete end of globalisation, but it is conceivable that, in reaction to these developments, two larger economic and social camps will form in the medium term that focus more on themselves: the "Westernised" world on the one hand, a large part of the Asian region as well as individual autocratically or dictatorially governed countries in other parts of the world with Russia and China at the economic centre on the other. Certainly a "turning point" not only on the economic level.

In particular, however, breaking away from Russia in the course of the attempt to move away from fossil fuels could bring positive effects, at least in terms of climate policy - not in the short term, but in the medium term.

The climate crisis is raging and the point of irreversibility is drawing ever closer. The water temperature of the Main River - if you want to take a single example - has already risen to over 25 degrees (as of the beginning of July 2022). Too much for fish, but at least not so far from bathing temperatures. It just doesn't help, because the water quality is far too poor for bathing. This small "water temperature problem" of the Main River also exists on a large scale. It's called blop and can cover several million square kilometres of ocean. And it is only one of numerous environmental disasters.

Climate protection has been a focus for quite some time, but one gets the feeling that it is only now really taking off, also at the European level: European Climate Law, EU Sustainable Finance Disclosure Regulation, EU Emissions Trading, EU Effort Sharing Regulation.

Electricity, district heating and building materials are mainly needed in the building sector. According to the German government's website, the building sector accounts for 28% of emissions in Germany, making it the largest emitter of CO_2. Existing buildings in particular still have a lot of potential for energy upgrades. It can be assumed that the renovation obligation already partially introduced by the GEG will be successively expanded. This is likely to pose enormous financial challenges for small private owners in particular, but institutional owners will also have to cope with large cost blocks. And by far not every building will be able to be brought up to an appropriate energy standard: the birth of the "energetic stranded assets".

The climate change in the building sector presupposes, of course, that materials, technology and the corresponding labour are available. And right here, a further aspect of the great "turn of the times" makes itself felt: general scarcity. The media have immediately recycled the expansion of their vocabulary achieved thanks to Covid-19 to include the term "triage" (which, according to wikipedia, refers to a "methodically specified procedure for prioritising medical assistance in the event of insufficient resources") - presumably in the interest of greater sustainability - and are now announcing "triage for gas" and "triage for drinking water".

Skilled workers and labour will also remain scarce for some time to come. A "triage" in their distribution might even have existed in the GDR, but that would hardly be compatible with the free market economy. So here, every company is left to its own devices for the time being.

But not to give the impression with this outline that everything ahead will be bad and hard: the "turn of the times" will come here too - even with a possible resolution of the problem.

How will this work in view of demographic development? Come with us on a little journey of thought - but first briefly the pick-up:

It is up to each person to judge whether the content of Cosmopolitan is of earth-shattering interest or not. But what does have considerable, moving power is the cover of the current issue: a female astronaut on a presumably alien planet with outer space in the background, quite fancy with a view from the ground. No, this is not going to be a statement for the need for more femininity in space travel (although it probably is). This will be the thesis, perhaps a little daring (and possibly also a little provocative) in the eye of one or the other, that the shortage of skilled workers and labour will be a thing of the past in the not too distant future - at least with regard to office jobs and some other services - despite a declining labour force. Digitalisation has already cost some jobs. So far, this has mainly affected activities with a repetitive process: in industry, robots made their entrance, in the service sector, software, such as online banking, made bank counter activities superfluous, at least for those who are Internet-savvy. Many have long been critical of these developments in terms of job security, but in the end it has always been said that we humans are not replaceable in all areas. Why? Because we have the capacity for creativity - not all of us, but at least some of us. We can develop ideas and solutions, create knowledge, paint pictures and write poetry.

So what's the deal with this Cosmopolitan cover? It is the world's first AI-generated cover of a prestigious magazine. The "creative mind" behind it is called DALL-E (made up of Dalì and Pixar's Wall-E) and can design images based on natural language. Cheaper and faster than any graphic designer.

But it doesn't stop there. Among other things, OpenAI works with the artificial neural network GPT-3, which can solve unplanned and unpredictable computational tasks. But that is not the only thing GPT-3 is capable of doing. It can also write (scientific) essays that are almost indistinguishable from those written by humans. The end of the ghost writer? Probably cheaper and the risk of plagiarism should be lower.

And scientists are not safe either: artificial neural networks can predict chemical reactions with high accuracy and also discover previously unknown reactions on their own. The artificial neural network AlphaFold, for example, can predict protein folds with a high degree of certainty (and thus solves one of the core problems of molecular biology) - we still don't understand why a protein folds the way it does, but we now at least know what its structure is very likely to look like. This saves a lot of time, according to heise online up to several billion years.

The great irony: At the same time, the Federal Statistical Office needs a full 18 months to publish the results of the 2022 census survey - which is certainly not due to the commitment of its staff.

The gap in the state of technology is immense, but so are the possibilities already available today. The fact that AI will replace us as a workforce no longer seems so far away and not so unrealistic as one might think. The question is how these developments will affect the real estate landscape in the future. You always have to live somewhere. You also need storage space. If you no longer have to work because AI does it for you, you have more time. Social aspects will probably move further into focus (and with them real estate that serves these aspects) - perhaps also the revival of stationary retail. But what will become of the offices? Because AI needs data centres, not office space. Urban farming in old office buildings? Conversion into flats? With more free time, there is also more time for a family again - perhaps the turning point in demographic change?

Whatever the near and distant future may actually look like in the end, the adaptability of the property - be it office, warehouse, retail... seems more important than ever, because living conditions will change more and faster than ever.

POLITICAL AND ECONOMIC ENVIRONMENT

(Still) positive GDP forecasts fraught with uncertainties

The German economy is currently caught between opposing forces. On the one hand, there is the boost to the service sector and private consumption in particular, which has been spurred by the extensive lifting of the Covid 19-related restrictions and is driving the economy. In addition, the household savings rate accumulated during the pandemic remains above average at 15% on average in 2021 (albeit declining compared to 2020 at 16.1%) and offers financial scope for consumer spending. For the first quarter of 2022, the Federal Statistical Office registered a renewed (sharp) increase to 23.2%, which is presumably an expression of consumers' fears of inflation.

On the other hand, several factors are dampening the economy: high inflation, which is affecting the ability of private households to consume, renewed supply chain disruptions and high energy/commodity costs to the detriment of the manufacturing sector in particular, and weaker exports due to subdued foreign demand, supply chain problems and also the sanctions against Russia.

As a result, and in view of the major political uncertainties, GDP forecasts for 2022 are likely to be as reliable as forecasts of the weather in a fortnight - probably not completely off the mark, but a precision landing would also be somewhat surprising in the end. While the forecasts of the Federal Ministry of Economics and the German Expert counsel for the assessment of total economic development for 2022 were 3.6% and 4.0%, respectively, last year, they fell to 2.2% (as of April) and 1.8% (as of March) in view of the Ukraine war. This does not yet take into account a possible gas supply shortage in winter due to a Russian supply stop, which would have severe economic consequences.

One issue that is in the spotlight across the board in view of the current economic turmoil - besides energy security - is the development of inflation; an issue that not only affects individual groups of people, but the broad masses. After more than a decade of low inflation rates, a certain habituation effect has set in. All the more worrying is the sharp rise that seems to have picked up speed with the start of the Ukraine war.

Inflationary development since 2021

While the inflation growth rate was still consistently below zero in the second half of 2020, it has been rising since the beginning of 2021 and thus well before the Russian invasion. This is due to several aspects that should be seen separately from each other, such as the introduction of CO_2 pricing at the beginning of 2021, the most extensive abolition of the VAT reduction in the course of 2021 or rising food prices (mainly due to crop failures / poor harvests and higher energy and fertiliser costs). The supply chain disruptions, which mainly affected products of upstream economic processes - and thus especially industry and wholesale - also took their toll, but are likely to have been (so far) only partially passed on to end consumers. How much price increase "potential" still lies dormant at their expense is very clearly reflected in producer prices (especially energy). Irrespective of all this, energy costs - one of the main drivers of inflation - have generally risen. The causes for this in turn are also manifold: increased electricity consumption due to the pandemic, little wind over the entire year (thus more demand for natural gas and coal), above-average gas consumption due to the cold winter of 2020/2021 together with the restart of industry, high global demand competition, increased transport costs, artificial shortage of oil production by OPEC countries, speculation, ...

Ukraine war exacerbates the pandemic effects

Since February/March 2022, this situation has been compounded by the effects of the Ukraine war, which - economically speaking - are largely in the same vein as the Covid 19 pandemic and thus exacerbate its inflationary effects: Further supply chain disruptions (due to non-/restricted usability of the Silk Road routes as well as the Black Sea, airspace closures) and even further increased pressure on energy prices, accompanied by an energy supply for the Federal Republic (but also other European countries) that is no longer secure. In addition, both Russia and Ukraine have disappeared as export and import markets. The latter in turn leads to further supply bottlenecks - for example, Ukraine exports steel and iron, wheat, maize, electrical engineering; in addition to fuels, Russia supplies metals / metal products, chemical products and also grain - a famine threatens in developing countries.

High inflation - come to stay?

A frequently discussed question at present is whether increased inflation (i.e. > 2 %, the ECB's target value) will be of a temporary nature or whether it will remain for a longer period of time. There are a number of factors whose existence argues for the latter, as they act as long-term cost drivers: the demographically induced labour shortage with the resulting pressure on wages, the energy turnaround (decarbonisation), the increasing deglobalisation tendencies and a central bank that no longer seems to focus solely on the inflation trend, but is increasingly also acting as a "prop for highly indebted states" and has therefore been criticised by many sides for some time as being too hesitant. The rising core inflation rate, which shows that the inflation trend is not solely due to the traditionally very volatile energy and food prices, may also point to a longer-term inflation trend.

Risk of the self-fulfilling prophecy

Moreover, expectations of future price developments can be a driver of inflation, namely when they become a self-fulfilling prophecy. If, for example, consumers assume that prices will continue to rise, they adjust their consumption behaviour to these expectations. Consumer spending is brought forward and the pressure on wages increases. This can lead to price increases that are not "the result of economic facts", which in turn drive inflation.

And indeed, the survey results of the Bundesbank, Germany's central bank, which regularly asks private households (and also companies) about their inflation expectations, rose significantly in March and have since been at an inflation rate of 5% (median) in 5 years; in mid-2021 the median value was still 3%. The expected value of the companies surveyed also corrected upwards to a similar extent.

Risk wage-price spiral

The rise in wages / salaries also has great potential to further fuel an inflationary dynamic (risk of a wage-price spiral). Such a development is not yet clearly emerging in Germany. The forecast of the German expert counsel for the assessment of total economic development (as of March 2022) also does not foresee above-average wage and salary developments for this and next year. However, 2022 is a year for numerous collective bargaining negotiations. While some of these have already been concluded (e.g. ver.di for the banking and insurance industry with around 383,000 employees, wage demands +4.5% and 5.0% respectively, agreement at 3.0% each in 2022 + 2.0% in 2023; IG Metall for the iron and steel industry, demand 8.2%, agreement 6.5%), the largest IG Metall negotiation in terms of number of employees (for the metal and electrical industry with 3.813 million employees) is still pending. The wage demands here amount to 7 to 8%.

But what is the problem with high inflation?

What is the problem with a high inflation rate?

The effects of high inflation rates are manifold and depend very much on the macroeconomic context. For example, a high inflation rate over a longer period of time can become a problem if incomes do not keep pace with its development. This results in a loss of purchasing power for private households, which in turn can have an impact on companies if they, for example, cannot pass on increased purchase prices or can only do so in part or can only sell products to a lesser extent, which weakens the supply side and companies' ability to invest. Such a development thus has an overall negative impact on prosperity and the economy.

In the current case, high energy prices also lead to an outflow of purchasing power abroad, as Germany is a so-called "net importer", i.e. we import more energy than we export. Even nationwide financial measures by the state, for example to relieve private households and/or businesses, cannot stop this outflow of purchasing power.

"Stagflation" as an economic horror scenario

In view of the current inflation trend and the economic imponderables, voices are increasingly being heard that see an increased risk of stagflation - the combination of high inflation and stagnating economic growth: the spectre of the severe economic crisis in the 1970s, from whose undertow the economy was only able to slowly free itself years later.

There are several indications of stagflation: massive increases in energy and material prices, combined with a negative development of relevant economic indices such as the ifo business climate index or the purchasing managers' indices. Added to this are temporary effects, such as the new wave of pandemics, the bottlenecks in raw materials and intermediate products resulting from supply chain disruptions, and restrained foreign demand, especially from China.

On the other hand, the labour market is robust and characterised by a shortage of skilled workers. The unemployment rate returned to pre-crisis levels in March 2022 and fell even further to 4.9% by May. According to the Federal Employment Agency, the very significant increase in June to 5.2 % is a special effect and due to the registration of Ukrainian refugees who "switched" from the scope of the Asylum Seekers' Benefits Act to that of Social Code Book 2, a combined labour market and welfare law; this development will probably continue in the coming months. The number of employees in short-time work continues to decline and is very clearly below the previous year's figure. The number of training place registrations has visibly increased, but the number of registered applicants continues to decline. The labour market thus continues to show itself to be very robust, but so does the worsening shortage of skilled workers and labour. The KOFA shortfall rate, for example, has not yet quite reached pre-crisis levels, but has been picking up strongly again since around May 2021. A rapid and high increase in the unemployment rate is therefore hardly to be expected in view of the many unfilled positions.

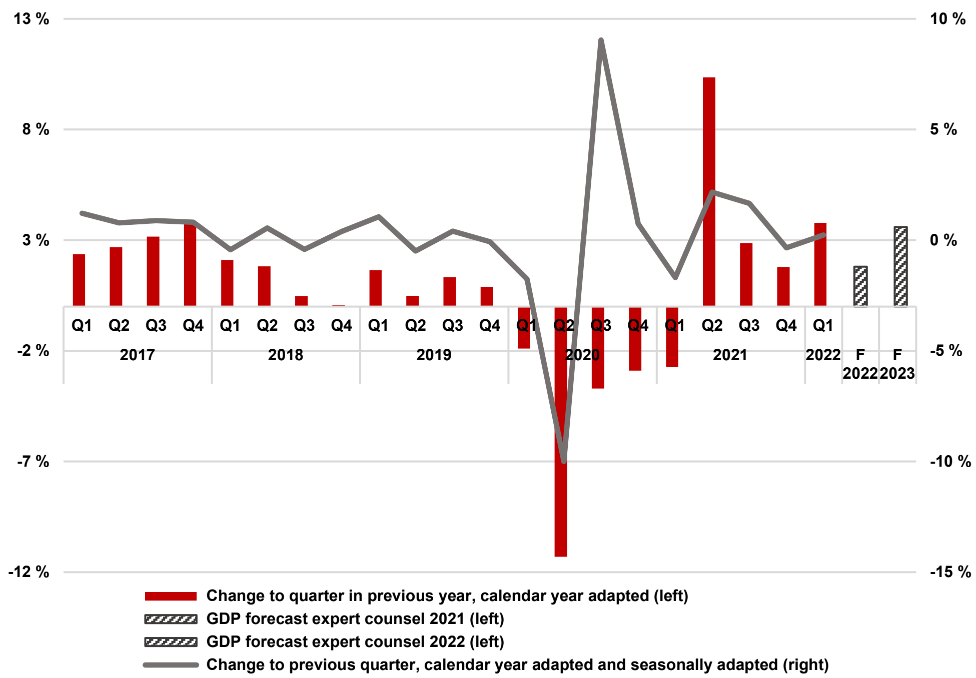
Moreover, the economy is currently suffering more from a shortage of supply due to a lack of raw materials/precursors than from a lack of demand. As supply bottlenecks ease, this should gradually ease. In the end, it may be less decisive whether there will be stagflation than how strong its impact will be and how far economic development and inflation will drift apart.

What awaits us in the short to medium term?

The Covid 19 pandemic and the Ukraine war have accelerated many economic, political and social developments and intensified trends. What lies ahead is difficult to assess in terms of its possibilities and their probabilities, but a revival of the "good old days" before the pandemic and the Ukraine war will probably not happen. "It is becoming increasingly apparent that a return to the pre-war situation is very unlikely in terms of geopolitics, the economy, trade and also inflation," says Bundesbank President Joachim Nagel.

Despite the current difficult starting situation, the Bundesbank assumes (as of June 2022) that in the second half of 2022 the effects of the cyclical stimulus will predominate and therefore forecasts GDP growth rates of between 2.0 and 2.5 % for the years 2022 to 2024. Wages and salaries will rise significantly, but will not be able to fully compensate for inflation. Although the Bundesbank assumes that inflation and core inflation will fall noticeably in the medium term after an initial increase, higher rates are still to be expected in 2024. In addition to wage costs, climate change will be a loyal driver of inflation.

Gross domestic product – development to previous year/quarter

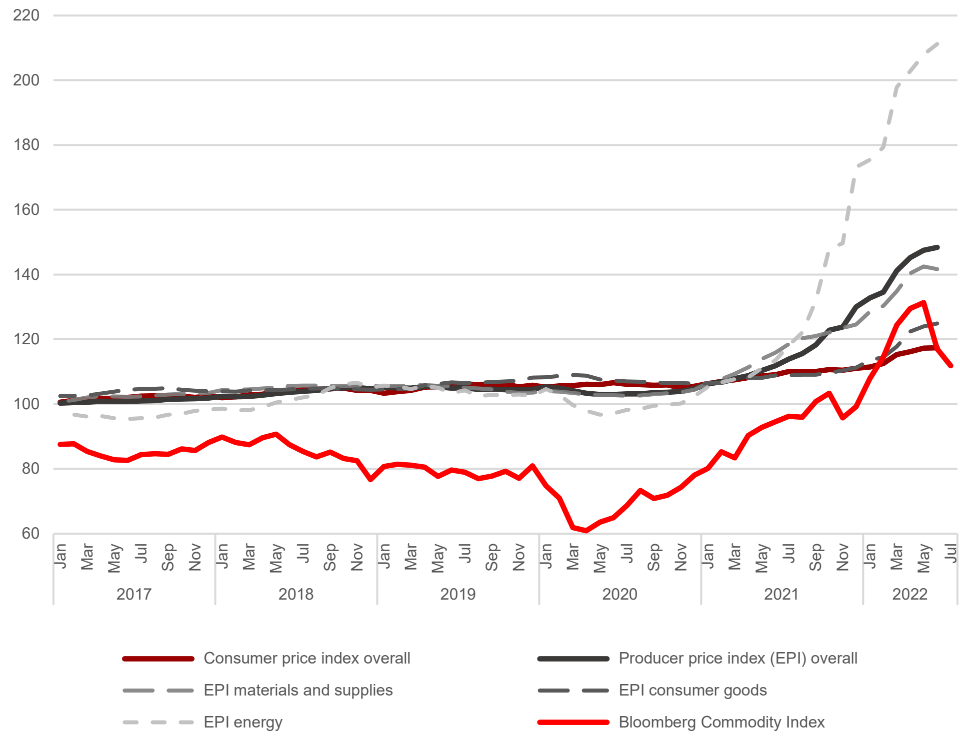


Sources: National statistics office, forecast values: expert counsel for the assessment of total economic development; own material

Consumer factors (private consumption, wages/salaries, savings rate – change to previous year period)

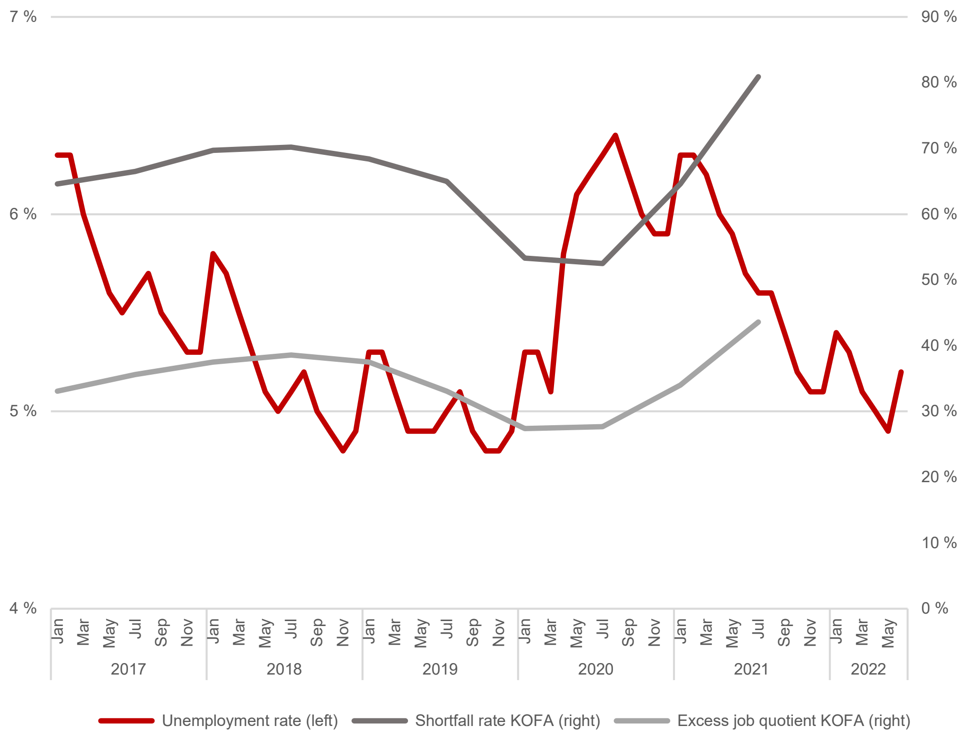
Sources: National statistics office, forecast values: expert counsel for the assessment of total economic development; own material

Price development (CPI, producer prices, raw material prices)



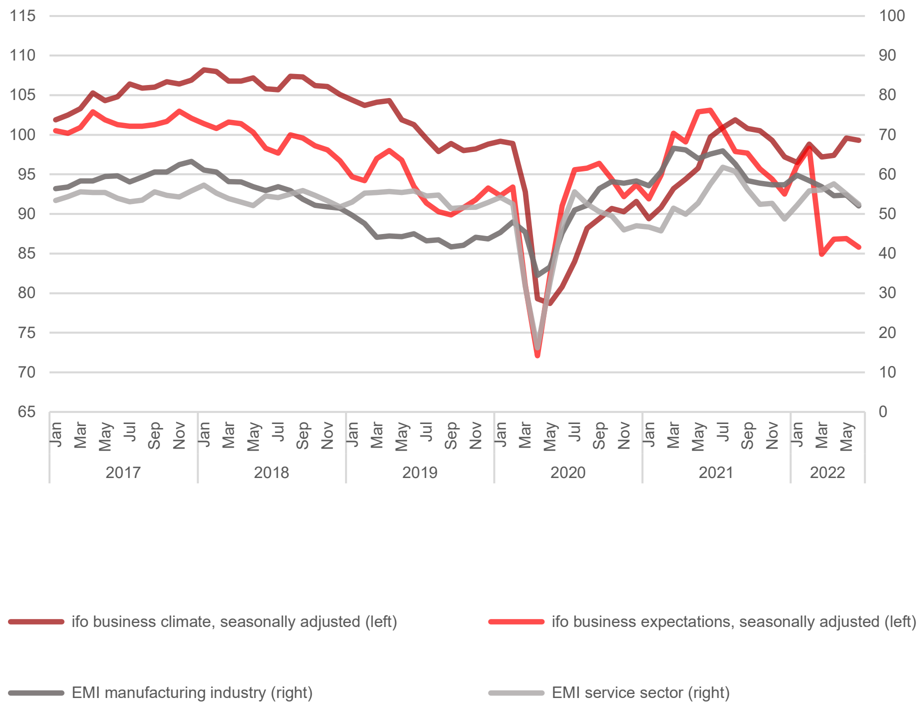
Source: National statistics office (VPI, EPI), Bloomberg; own material

Labour market (unemployment rate, KOFA shortfall rate, KOFA excess job quotient)



Sources: National Job Centre; Kompetenzzentrum Fachkräftesicherung (www.kofa.de). Calculations based on special assessments of the national job centre and the IAB 2021, own material

Business climate indicators (business climate index, purchasing manager indices)



Sources: ifo (business climate /expectations), IHS Markit Ltd. (EMI); own material; EMI: value > 50 positive development < 50 negative development

Forecasts

annual change		2021		original F 2022	current F 2022	P 2023
GDP	%	2.9	CAED	4.0	1.8	3.6
			FME	3.6	3.6	2.5
Private consumption	%	3.2	CAED	(HY1) 17.2 (HY2) 7.0	(HY1) 9.5 (HY2) 8.0	(HJ1) 10.5 (HJ2) 4.9
			FME	7.1	9.7	44777,0
CPI	%	3.1	CAED	1.9	6.1	44654,0
Gross wages and salaries	%	3.8	CAED	4.9	5.1	6.0
			FME	3.9	5.2	4.0
Absolut						
Unemployment rate	%	5.9	CAED	5.3	5.1	4.9
			FME	5.3	5.0	5.0
Savings rate	%	15.0	CAED	9.6	11.1	9.9
			FME	12.2	10.9	10.5

Source: Federal Ministry for the economy, expert counsel for the assessment of total economic development; own material

INVESTMENT MARKET

Strong first vs. weak second quarter

Although the CRE investment volume in 2021 alone was nowhere near the result of the record year 2019, it was 23 % above the previous year's figure due to the stronger pick-up in the markets, particularly in the wake of a weakening pandemic in the second half of the year. If investments in residential portfolios, which in 2021 were primarily driven by the takeover of Deutsche Wohnen by Vonovia, a German housing company, are also taken into account, the investment volume was actually almost a quarter higher than the 2019 result. This development culminated in an absolutely exceptional result in the CRE market in the first quarter of 2022 - still driven by investment pressure and a lack of investment alternatives - which was still unaffected by the Russian invasion of Ukraine.

Over the past few months, however, increasing economic uncertainty has built up as a result of the constellation (now exacerbated by the Ukraine war) of the ongoing Covid 19 pandemic, supply bottlenecks, a shortage of skilled workers and inflationary trends, which, despite the strong opening quarter, according to some market reports already resulted in a partly "crumbling" willingness to pay on the part of buyers at the beginning of the year. Perhaps this was the first harbinger for the second quarter with an investment volume that was around 57% below the result of the first quarter and for which the major brokerage houses unanimously stated rising or at least stagnating returns for all asset classes.

Development of the financing environment

This significant decline is likely to be a reflection of the deterioration in financing conditions, especially the increase in financing interest rates. The German Real Estate Financing Index (DIFI), which at the beginning of the year was still at a level last seen in 2015, plummeted across all asset classes after a slight decline already recorded in the first quarter and is only undercut by the negative record in the second quarter of 2020. Both the financing situation and expectations developed negatively.

According to the survey results of the Bundesbank's Bank Lending Survey from July 2022, credit conditions have tightened very slightly from a bank perspective in the last six months. The demand for credit has risen minimally. For the coming six months, the institutions surveyed expect a further slight tightening of credit conditions as well as a slight decline in demand for credit (slightly stronger for commercial real estate than for residential real estate).

What is happening with investment alternatives?

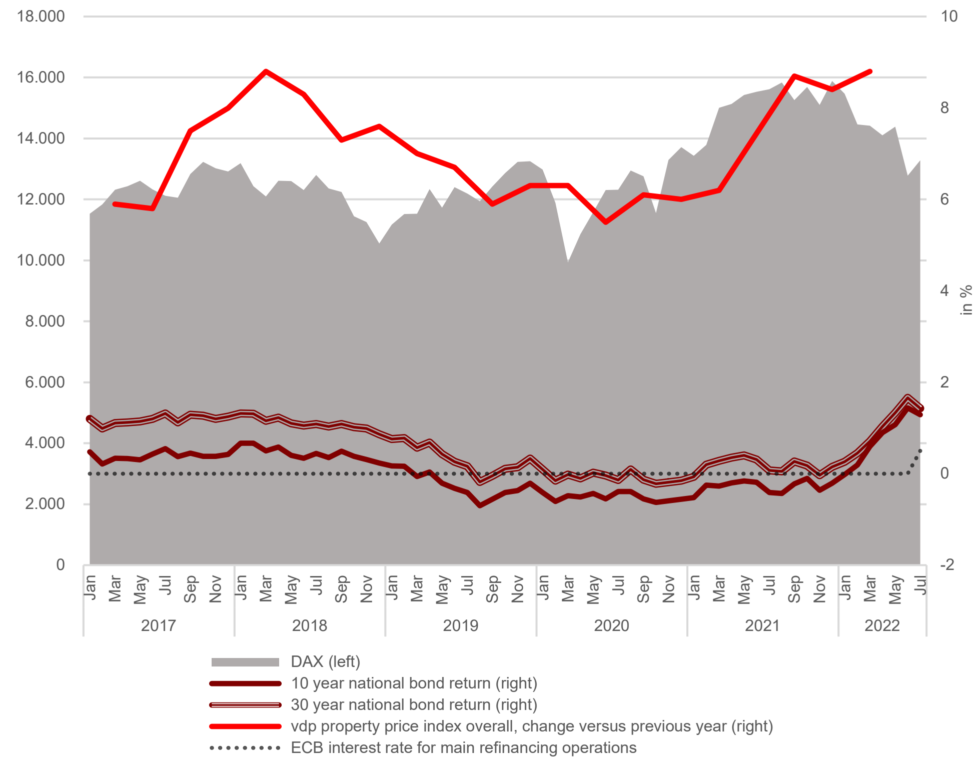
The DAX, the German share index, has been moving downwards quite reliably since around November in view of the major economic uncertainties caused by the resurgent pandemic, rapidly rising inflation, the interest rate turnaround and now also by the uncertain energy supply in winter, and thus does not represent a particularly attractive investment alternative at the moment. In the course of the announced key interest rate hike in July and the further interest rate steps to be expected, however, the yields on national bonds have visibly picked up again, with the 10-year national bond return at 1.29% at the end of July, a value it last reached in the first half of 2014, and the 30-year national bond offering around 1.46%. However, the whole thing is only likely to be really attractive (or more attractive) with a significantly lower inflation rate.

What does the future hold?

A price-finding phase: buyers and sellers will adjust a new price level as soon as a more stable interest rate environment becomes apparent. A more dynamic transaction activity can then be expected, especially since rental markets are still doing well. Price declines are quite conceivable, but should be limited to moderate corrections. The yield compression should have come to an end.

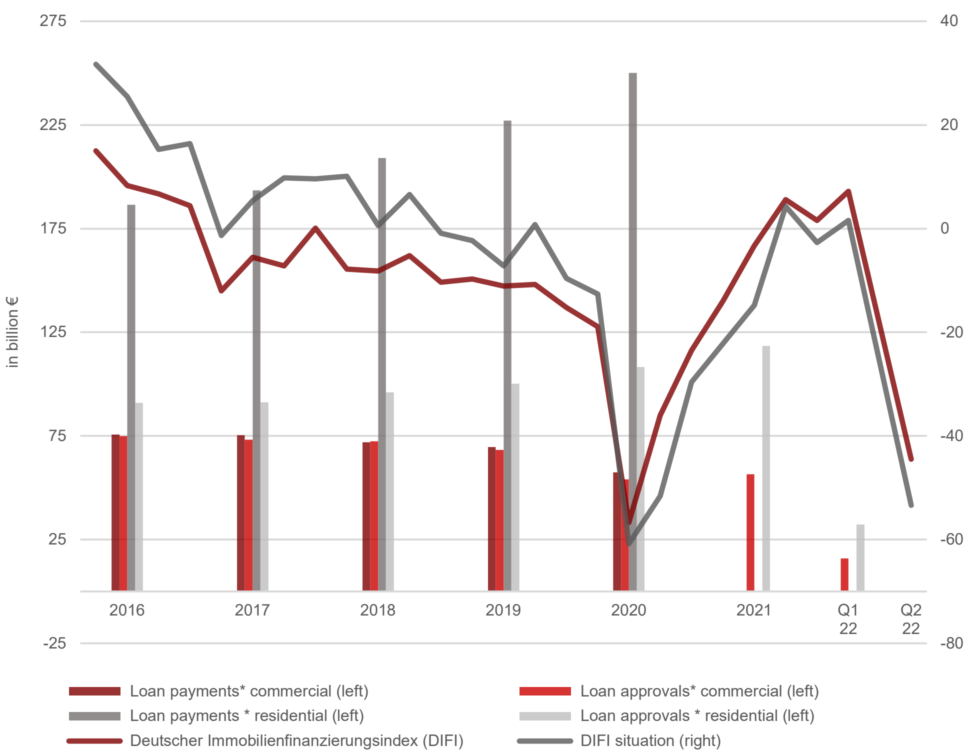
Demand for core properties will remain very high, with supply continuing to be the limiting factor. In view of the ongoing transformation processes with changing requirements for location and property, it is quite conceivable that the term "core" may not be redefined, but at least adapted.

Development of classical investment options



Sources: Deutsche Börse (DAX), German central bank (bonds, base rate); vdp (price index); own material

Financing conditions



Sources: vdp (granting of loans); JLL / ZEW (DIFI); own material

OFFICE MARKET

Positive development on the labour market

The increase in fundamentals that set in during 2021 was reflected in the development of the labour market and thus in the number of office employees. While these were slightly down in the first year of the pandemic, according to Bulwiengesa, they returned to roughly the pre-crisis level in 2021. For the current year, the consulting firm expects a significant increase. In principle, therefore, positive impulses for the office markets for the time being. However, it remains to be seen how strongly supply bottlenecks, inflation and the Ukraine crisis will indirectly affect demand for office space. But first, let's look back.

Rental market develops (moderately) positive

Take-up in 2021 was ¼ above the previous year's result, but 11 % below the 5-year average. While the first half of the year was only moderately positive, around 60 % of the space was taken up in the somewhat stronger second half of the year. The drivers of demand in the second pandemic year were primarily the public sector and state-owned companies, while the private sector tended to hold back, which was also reflected in a below-average result for large deals (>10,000 m²). And the momentum on the rental market continued to pick up in 2022. In the first two quarters, around 57 % of the take-up of the entire previous year was realised. The pre-letting rate rose slightly from Q3 2021, but fell again in the second quarter of 2022.

In view of the continuing high demand, prime rents continued to rise slightly both in 2021 and in the first half of 2022. As in the previous year's report, however, it should be noted that effective rents are likely to remain under pressure in view of the increasing importance of incentives. Particularly in the case of existing buildings, in the course of ESG requirements and the transformation of working environments, not inconsiderable conversion costs are to be expected in the next few years - whether as incentives or in the course of own conversion measures - provided that structural adaptation to the increasing requirements is economically viable at all.

The increase in vacancy rates seen since around Q4 2020, which resulted from a combination of restrained demand and rising completion volumes, continued moderately in 2021 and the first half of 2022, but has lost considerable momentum since the end of last year. Although vacancy rates in the top 8 have more than doubled in some cases in the course of this development, with the exception of Dusseldorf and Frankfurt they remain below the fluctuation reserve. In Berlin, Hamburg, Cologne and Leipzig, vacancy rates have even fallen slightly again recently. However, it must be taken into account that in the course of the pandemic sublet space was increasingly offered on the market, which is why it must be assumed that the "official" vacancy rates do not fully reflect the actual situation.

Rising prime rents despite increasing vacancy rates

The vacancy rate in A-cities is growing, albeit moderately, and at the same time rents are rising - a paradox? Only seemingly. The resolution of this supposed contradiction is not only, but also primarily, due to the building age structure of the office property market. According to dena, the German Energy Agency, 64 % of all German office buildings were built before 1978 (and thus before the 1st Thermal Insulation Ordinance came into force) (as of 2015), and only 5 % after 2009. Even if the share of new buildings has probably increased slightly in the meantime in view of the brisk construction activity of recent years, it is clear that the demand for ecologically sustainable rental space driven by EU taxonomy and ESG requirements is encountering a fairly low supply. At the same time, the "new" office buildings usually also have the greatest flexibility and modern equipment, which also puts them in focus with regard to the implementation of new working models/concepts.

Home office: struggle for survival of office space?

After more than two years of the pandemic, the resulting surge in digitalisation, the reduction of reservations about working from home and even a "claim to discuss mobile working and home office" anchored in the coalition agreement, it can be said with regard to the developments on the rental market that there is still office space and also companies that demand it. What is now also available are numerous studies on the question of the impact of home office on future working environments (and thus also on the demand for office space), which, depending on the respective recording system and definitions, deliver quite "widely scattered" results - especially with regard to the home office quota (before and during Corona), work productivity when working from home or the significance of home office after the end of the pandemic. Overall, however, it can be said that the home office potential is very strongly dependent on the specific activity performed. Knowledge-intensive services and highly qualified professions in particular have the highest home office suitability, which means that the individual regions are or will be "affected" by the home office influence to varying degrees depending on their sector structure. It should also be taken into account that it is not only the home office potential that is decisive for the impact of home office work on the demand for office space, but rather its difference to the home office quota already fulfilled - examined in a study by ifo INSTITUT and infas and referred to as the "home office gap", which in turn is greatest in northern Germany and parts of Saxony in particular.

Brave new (working) World with declining demand for office space?

It is difficult to predict exactly what future working environments will look like, but they are likely to become more complex due to the increased number of "components" (office space, mobile working, home office) and the solutions will become more company-specific. In addition, against the backdrop of the growing shortage of skilled workers, the topic of "well-being" with the purpose of employee retention is likely to continue to gain significantly in importance. The question of whether this transformation process with the resulting structural and conceptual changes will now have a negative impact on the demand for office space divides opinion in the market: some say yes, others are certain (probably the more likely variant) that the additional demand for space (e.g. for communication/community areas, meeting rooms, quiet zones) will (more or less) compensate for the space freed up by the higher home office use. However, a prerequisite for this is likely to be a high degree of flexibility in office space. So far, flexible "room design" has often been largely limited to conference areas. With the implementation of new office concepts, however, high demands are now likely to be made on the flexibility of the remaining office space.

So no decline in demand after all?

The extent to which home office will ultimately affect the demand for office space is still impossible to judge. What can be stated with certainty today, however, is that the decline in the number of people in employment, exacerbated by the imminent retirement of the baby boomer generation, will certainly be reflected in the demand for office space in the future.

What happened to Flexible Office Spaces?

Flexible office spaces have experienced rapid development worldwide in recent years in terms of take-up and the number of openings. In the second half of 2019, however, the first signs of weaker growth emerged in Germany (according to JLL, take-up of flexible office space fell by around 50% year-on-year in Q4 2019). Many market observers expected a consolidation of the highly fragmented market, not least since then. The test then came quite quickly in the form of Covid-19.

Occupancy and turnover collapsed in 2020, members terminated their contracts and many locations were even temporarily closed completely. Not all operators were equally affected. According to The Instant Group, the demand for private space was significantly higher than for large shared spaces, which particularly affected pure coworking providers, who in turn also had to accept higher termination rates from their members than providers who rely more on renting out private offices, which is likely to be primarily due to the membership and contract structure (many freelancers with flexible contract terms). In addition, the occupancy rate correlated positively with the size and number of locations as well as the length of the operating period.

The assessment of their own situation successively improved over the course of 2021. In a recent survey by deskmag from Q1 2022, around 4/5 of the operators surveyed assessed this as satisfactory or even good. For 2022, 75 % of the respondents expect increasing membership numbers and 60 % expect revenue increases or higher profitability.

However, the survey also states that the share of profit-generating flexible office spaces has declined significantly. A further consolidation process can therefore be assumed, which will develop in favour of financially strong hybrid model providers with a diversified network of locations. However, there is no threat of an end to the "flexible office space" model; on the contrary: JLL expects flexible office space to account for 30% of all office space by 2030. Flexible working concepts, which also focus on working close to home, are likely to lead to more demand for flexible office space in suburban locations and in B and C cities. For providers, this offers the prospect of higher returns due to a better income/expenditure ratio - in addition to the expected better availability of space. Furthermore, the entry of new concepts into the

German market is to be expected, especially of management or white label models, which also enable corporate branding in flexible working environments.

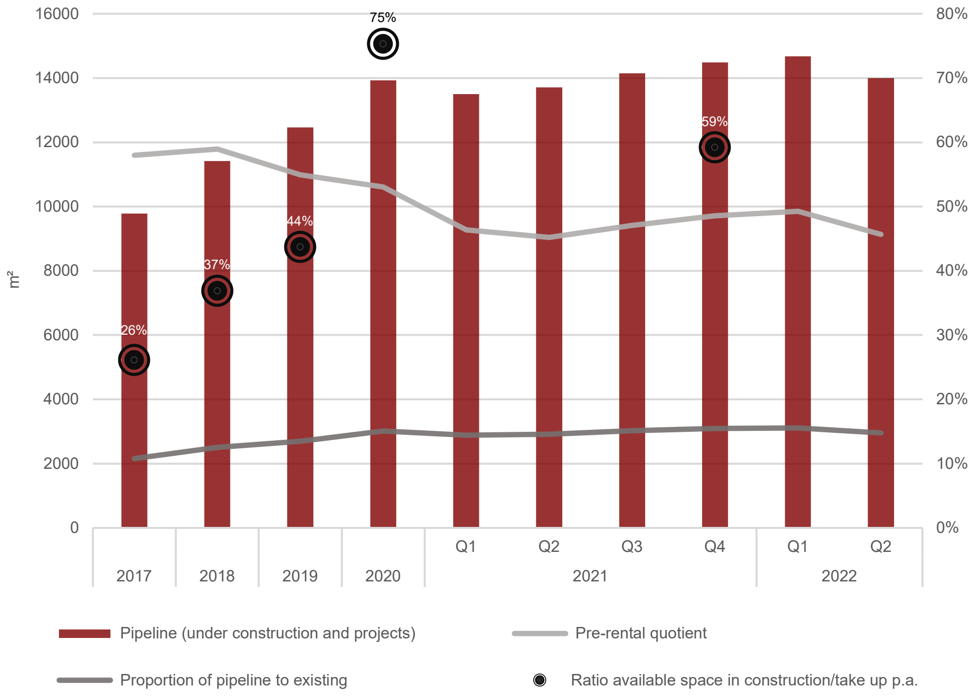
Rising investment volumes and falling returns

While the pandemic had a visible impact on the investment market in 2020 - albeit much less than on the rental market - market activity visibly picked up in 2021 with a plus of almost 25% compared to the previous year and even with a result of around 30% above the 10-year average, even if the value of 2019, the absolute record and last pre-crisis year, was not reached. Still largely unaffected by the Ukraine crisis, the investment volume in Q1 reached completely new heights with around €9.8 billion and a plus of more than 55% (!) compared to the best first quarter in 2020 recorded until then. The rather weak portfolio segment in 2021 played a significant role in this result, especially due to the acquisition of Alstria by Brookfield, which alone resulted in a transaction volume of €4.5 billion. In Q2, the current (financial) economic and geopolitical situation made itself clearly felt with a decline in investments of around 2/3.
The investment focus in both 2021 and the first half of 2022 was clearly on the A-cities, which were able to further expand their dominance. Yields declined slightly in all top locations in the previous year and have since shown a sideways movement until they rose by 0.1 to 0.15 percentage points across all locations in Q2.

Outlook

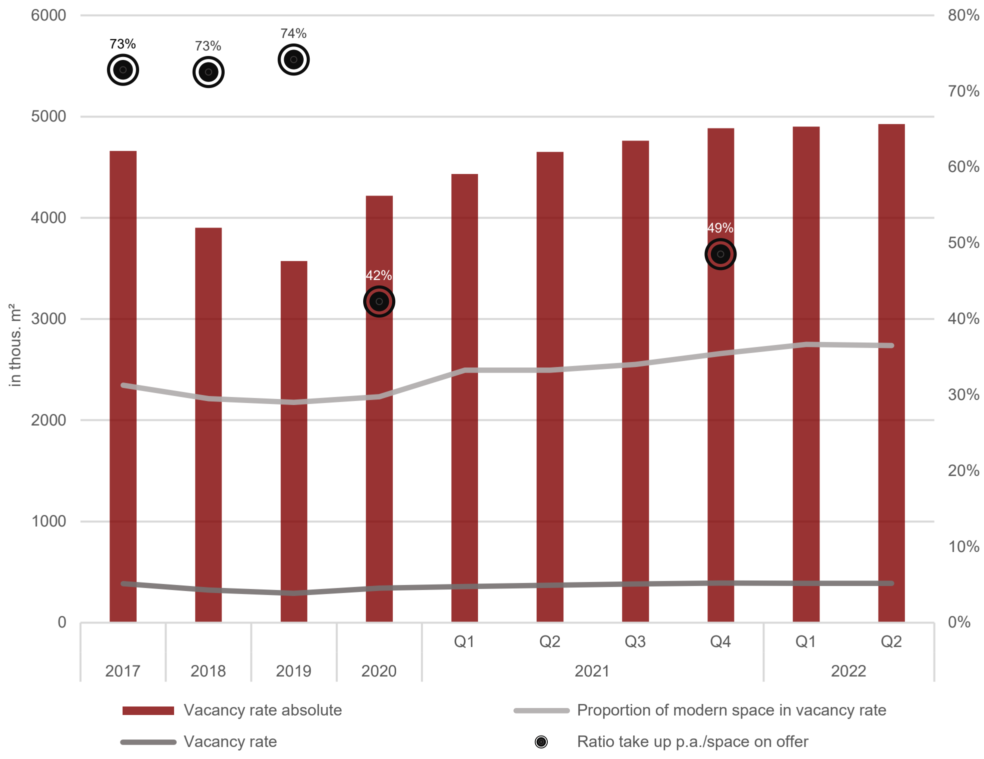
Subject to the dampening effects of the current economic turmoil, demand on the office markets is expected to continue to rise in the short term. Due to the strong focus on high-quality and flexible space, the increased ESG requirements and the sharp rise in construction costs, further slight rent increases are conceivable. On the other hand, the expansion of supply due to the well-filled project pipeline for 2022 should lead to further increases in vacancy rates, which should nevertheless remain at a moderate level due to the strong demand - keyword fluctuation reserve.
In contrast, the (short to medium-term) development in the secondary locations could look somewhat different. The increase in the volume of completions means that more demand for high-quality space can now be met in the central locations than in the past, which could - at least somewhat - reduce evasive reactions to the secondary locations. The rent level here is therefore likely to stagnate or even fall slightly. With the increasing ESG requirements, for which construction and location-related criteria are also of particular importance, it can be assumed that the gap between the core properties in the prime locations and the often rather average to below-average stock of space in the secondary locations will gradually widen, especially with moderate public transport connections. Price reductions are increasingly to be expected for properties with location-related or structural deficits.
In the medium term, the demographically induced development in the number of people in employment and thus also in the number of office workers will have a negative impact on the demand for office space. In addition, office space will only be one of several alternatives in the working world and will have to meet higher demands for flexibility, sustainability and comfort in terms of well-being. It can also be assumed that the requirements, especially for room design and equipment quality, will change more quickly than in the past.

Development of supply of space (without Stuttgart)



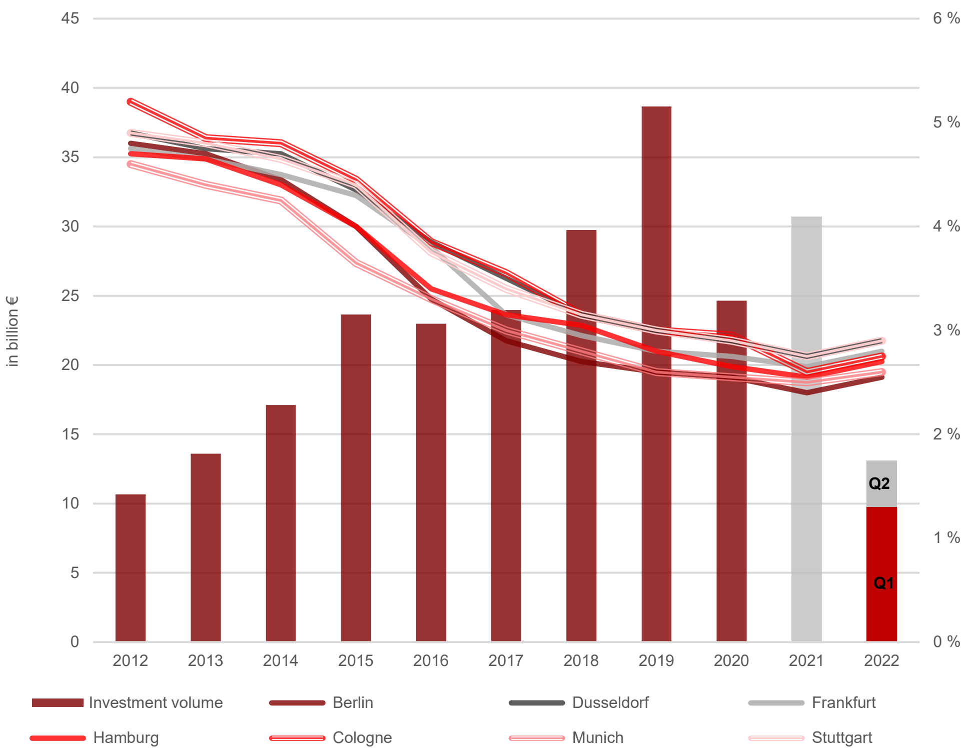
Sources: BNP Paribas Real Estate; own calculations, diagram

Vacancy development (without Stuttgart)



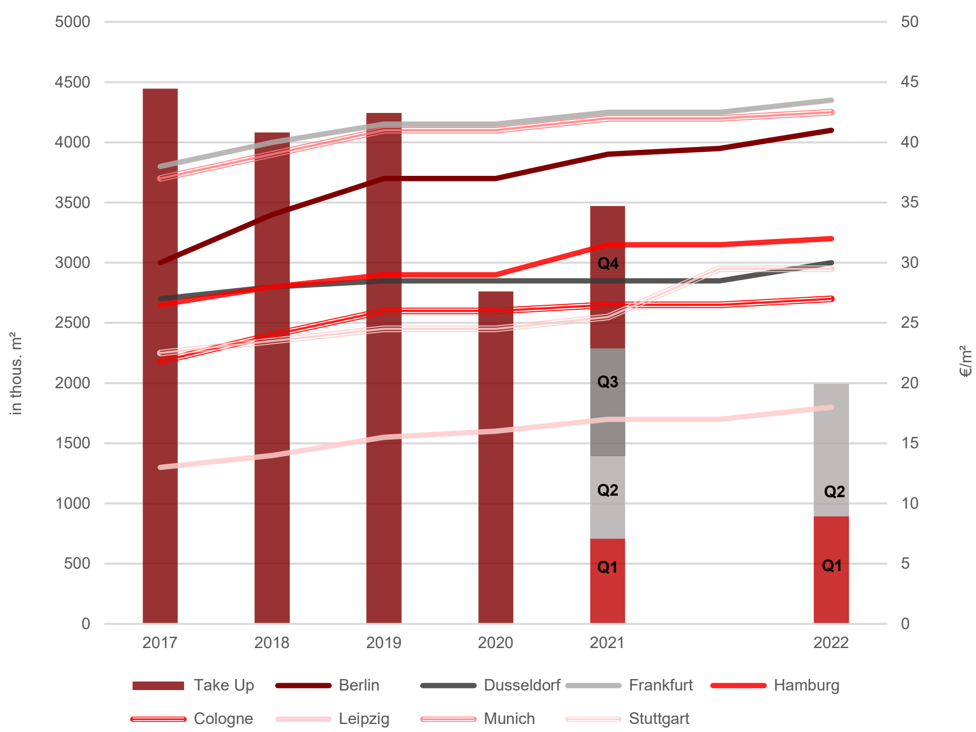
Sources: BNP Paribas Real Estate; own calculations, diagram

Investment volume and prime yields (without Leipzig)



Sources: BNP Paribas Real Estate, JLL (Leipzig); own material

Take Up and prime rents



Sources:JLL (rents), BNP Paribas Real Estate (take up); own material

RETAIL MARKET

Rising retail sales, but ...

According to estimates by the Federal Statistical Office, retail sales in 2021 were 0.9 % higher in real terms than the record result of the previous year. In 2021, sales growth was again driven by mail-order and internet retail, which achieved a plus of around 19 %, while stationary retail recorded a (slight) decline of around 0.6 %. The loser was again primarily the stationary textile and clothing retail trade, which had to accept a further minus in addition to the high decline in sales in 2020, while the mail-order and internet trade recorded a significant growth in sales in the same segment. According to HDE, the German Retail Association, the share of online shoppers rose by 11% in 2021, and by as much as around 30% in the 60+ age group. At the same time, expenditure per online purchase also increased.

Purchasing power continued to develop positively in 2021 despite Corona and the sharp drop in the consumer climate. However, it is precisely here that a clear difference will now become apparent compared to the (expected) consequences of the Ukraine crisis, the resulting uncertainty among consumers and the strongly fuelled development of inflation, above all energy prices, because this time there will probably be a decline in purchasing power - despite rising salaries and pensions. The extent to which this will affect retail sales will ultimately also (but not only) depend on how the Ukraine conflict and its economic effects as well as inflation develop further, which is still difficult to predict at this point in time. In addition to the renewed slump in consumer sentiment and the outlook for a decline in willingness to spend, there are other problems weighing on trade.

Supply bottlenecks burden the retail trade

The headlines have regularly featured supply problems in the manufacturing sector since 2020: chip shortages, missing wiring harnesses, no raw materials... But the retail sector has also been and continues to be severely affected by disrupted supply chains. And retailers fear this will continue until mid-2023. "Supply problems have become a permanent problem for the retail sector," states Klaus Wohlrabe of the Ifo Institute. A permanent problem that not only affects individual retailers, but has a broad impact, because according to the ifo economic survey from 06/2022, about 76 % of retailers reported supply bottlenecks. These were particularly pronounced in the trade with bicycles (100%), electrical household appliances (98.1%) and motor vehicles as well as DIY stores (each with approx. 90%). But even in the clothing trade - the least affected sector at the time - around 54.4% of retailers reported missing or delayed deliveries. While retailers of all sizes are likely to be affected by this problem, it is not unlikely that the situation will mainly be to the detriment of small retailers, as it may be more economical to supply a few large retailers than many small ones if the number of deliverable products is too low. But this is not the only reason why small and medium-sized traders could fall behind.

Are depleted liquidity reserves threatening to leave small and medium-sized traders behind?

Changing consumer demands and the resulting outflow of sales to online retail require investments in the adaptation of shop concepts and in digitalisation. Most chain stores have reacted to these changes - albeit very late in some cases - by developing their own cross-channel strategies and have been so successful that, according to HDE 2021, 45% of online sales growth was generated by retailers with "stationary DNA". However, this strategy does not work for everyone. Small, but also medium-sized retailers face the problem that the costs for the development and maintenance of their own online services cannot be passed on to a large sales floor network and that corresponding investments - if they can still be made at all in view of depleted liquidity reserves - do not pay off or only much later. In addition, the know-how to set up their own online shop has often been lacking up to now. So-called market places now offer much easier access to the "online world", but due to not inconsiderable costs, even such options are not necessarily economical for retailers. In a survey by the BTE Textile Trade Association, 52% of the textile retailers questioned said that platform sales were not economically viable for them (61% if they had their own online shop); for example, in the clothing trade, which is strongly affected by e-commerce, the high returns rates cause considerable costs. The question therefore arises as to how small and medium-sized retailers can make use of digitalisation in order to hold their own against a growing online trade.

What will become of inner-city retail trade?

The online success of many chain stores already mentioned raises the question, at least for the high streets of the large and bigger cities characterised by a high degree of branching, to what extent they will still need their dense branch network in the future, especially since a simultaneous operation of online and stationary offers is likely to be quite cost-intensive. The non-store-based specialised trade, on the other hand, is fighting on many fronts, but cannot stop the progressive loss of market share. If, as a result of these "circumstances", one starts to think about the future of city centre retailing, one quickly ends up with the fundamental question of how city centres will develop in the future. In a study by imakomm AKADEMIE, about 750 municipalities were first asked about their assessment of the development of their city centres. They assumed that vacancy rates would rise, with C-locations being the most affected with +21% (A-locations + 8%, B-locations + 15%). This contrasts with a survey by the EHI, according to which the city district locations - at least during the pandemic - suffered less from declining frequencies than the city centres, which raises the question of whether the ageing of the population and the accompanying increase in people with mobility restrictions might not even bring a demand advantage for the city district locations. But back to the city centres: the municipalities surveyed by imakomm expect a decline in the number of retail businesses by 13 to 14 %. In addition, it is assumed that the number of gastronomic establishments will also decrease by 6 to 7 %, which is a sign that gastronomy alone, which has been somewhat celebrated as the saviour in recent years, will also not be the solution for the "revitalisation" of the city centres. The municipalities expect a decline of 9% in footfall, which in turn is likely to result from a drop in overnight stays (-4 to -5%). So all in all, expectations for the future are rather cautious. And yet this will certainly not be the end of the city centres that has been so often conjured up. However, it is necessary to find incentives adapted to the changed needs and desires and, of course, to set them. The ways and means by which this can be achieved ultimately depend on the individual circumstances of each municipality. However, an essential building block for a conceptual redesign of the city centres should quite often be a lower rent level that, in the sense of diversification of offers, also enables uses (such as drugstores, food retailers, manufacturers, leisure and social offers, etc.) to settle here that are not in a position to pay the high rents of the textile chain stores in particular. Another starting point could also be leisure tourism, as here the municipalities expect an increase of 13 %, which could be accompanied by a 9 % increase in leisure-related overnight stays. Tourism demand from the surrounding areas will probably play a major role here, which is likely to significantly increase the importance of municipal mobility concepts. According to an EHI survey, the municipalities questioned there about their mobility concept invest most in the bicycle infrastructure and the expansion of public transport. According to a BTE survey - this time of passers-by - 63% of customers from outside the city travel by car and even 37% of customers from the city itself use the car. This example makes it clear that there are still many unanswered questions about the city centre of the future and that there can certainly be no one-size-fits-all solution.

Differentiated developments on the rental market

But whatever the city centre of the future will look like, it can be assumed that the demand for space (especially for large spaces of 1,000 m² or more and for vertical spaces > 1st floor) and the willingness of retailers to pay in this area will decline, especially in the metropolises. This means that the retail sector as a whole continues to present a very differentiated picture, as demand in the local supply sector is unbroken, leading to further slight increases in rents here. According to BNP Paribas, the letting volume across the retail sector as a whole rose by around 12% in 2021 compared with the previous year's result, but was still around 25% below the last pre-crisis figure from 2019. The A-cities became the focus of demand more strongly in the two crisis years. A development that also continued in the first half of 2022.

Investment market

Demand on the investment market was somewhat more restrained in 2021 than in the very strong first pandemic year. While the transaction figures were roughly at the same level as in 2020, the investment volume was down by around 22%, which was mainly due to fewer large transactions, especially in shopping centres. However, a slight upturn in the market was observed again in the second half of the year. The focus of demand was once again on specialist stores and retail parks (especially with a focus on food) as well as DIY stores. Accordingly, the yield compression continued here. However, shopping centres and commercial buildings in prime locations also showed falling yields again. In the case of shopping centres, this trend already began at the beginning of the year; in the case of commercial buildings in prime locations, it developed over the course of the year.

The momentum from the second half of 2021 was carried over into the first half of 2022, with a correspondingly higher transaction volume than in the same period of the previous year. Yields have remained stable so far despite deteriorating financing conditions.

Outlook / Trends

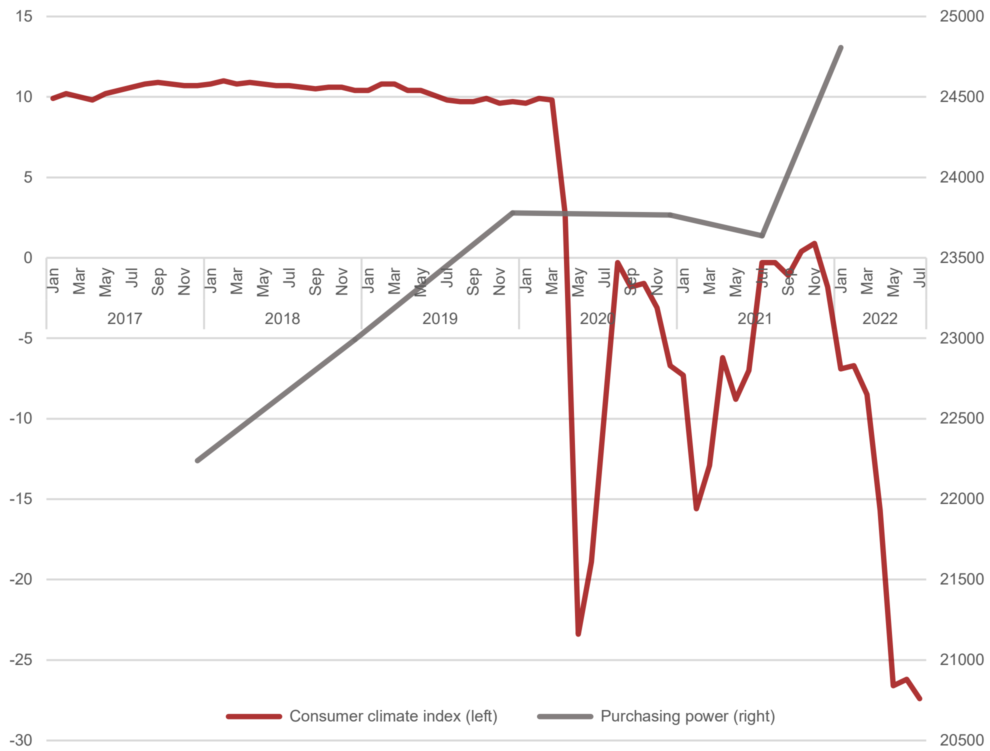
The transformation process will continue, especially in the city centres, but also in the shopping centres. It can be assumed that the variety of uses will move away from a strong focus on textiles towards a mix of different retail sectors, gastronomy, leisure and social offers, but also logistics (especially microdepots) will increase significantly. In this context, the demands on retail space are also likely to change in the course of online strategies such as click and collect, cross-channel, etc.: more flexibility, more storage space... However, digitalisation will also make itself clearly felt in other areas, because in times of a shortage of skilled workers, the automation of certain processes (such as cashiering) can free up labour potential that can be used, for example, to "get closer to the customer" through advisory services and thus strengthen customer loyalty.

Specialist store properties will certainly remain in focus, but with increasing restructuring, prime locations and shopping centres, which have recently continued to lose market share, should also attract more interest again.

The increased home office quota, which will certainly remain at a higher level than in the pre-crisis years even after the pandemic has subsided, could have a favourable effect on peripheral locations, as people will demand and make use of more offers "during the week" at or near their place of residence.

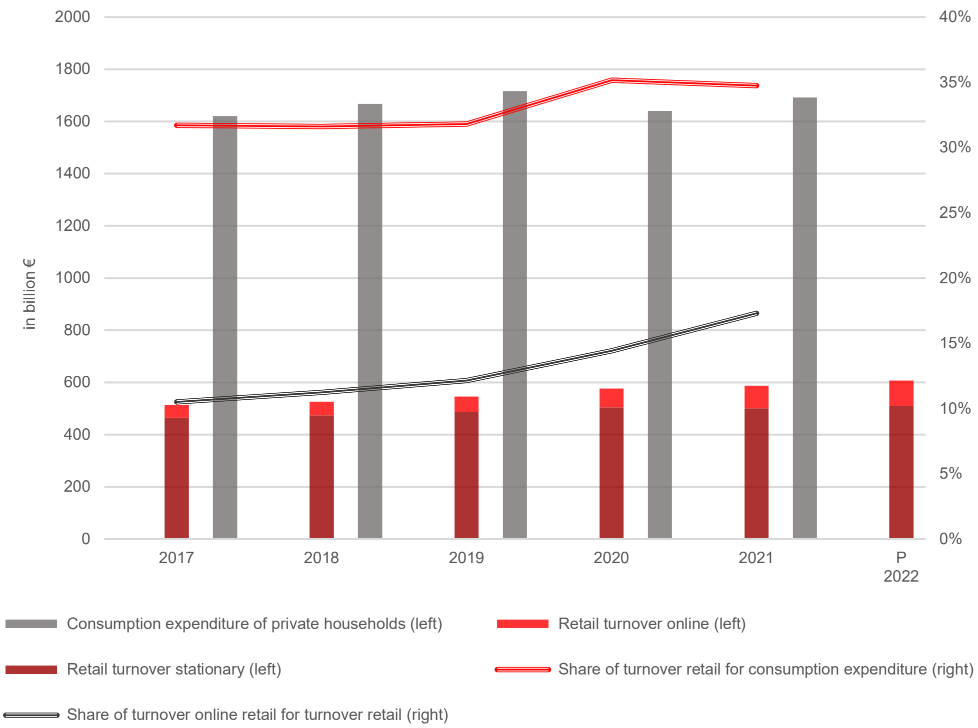
And even though it was already in the last market report, there is simply no getting around it: the topic of sustainability will continue to gain in importance. This applies to the real estate level as well as to trade logistics and goods themselves. With regard to real estate, the ZIA's spring report points to the great importance of the retail sector in the future expansion of the electric mobility infrastructure. This results on the one hand from its "omnipresence" due to the dense network of locations, but also from the frequency of use and the often central location. In particular, food retail locations, which account for just over 50 % of all branches in Germany, often have a large number of customer parking spaces. The same applies, for example, to furniture stores or DIY stores. Accordingly, the regulations of the Building Electric Mobility Infrastructure Act (GEIG) often apply here. According to a study by EHI, however, customer loyalty and the achievement of climate goals are more important reasons for the retailers surveyed to build a charging infrastructure than the legal requirements.

Purchasing power and consumer climate



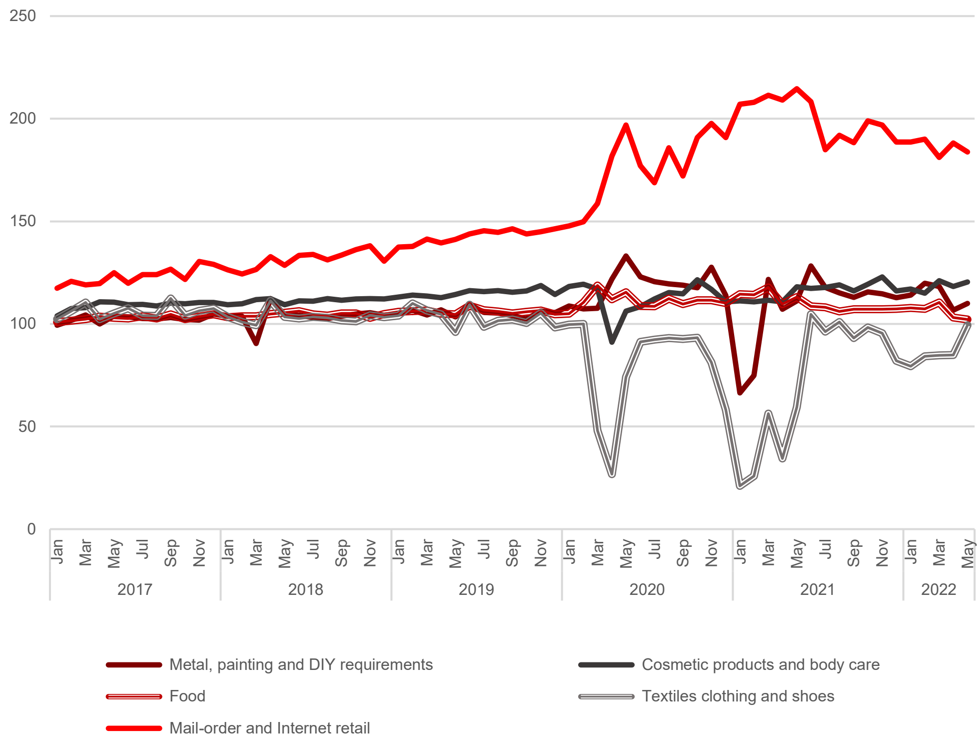
Source: GfK; own material

Turnover development



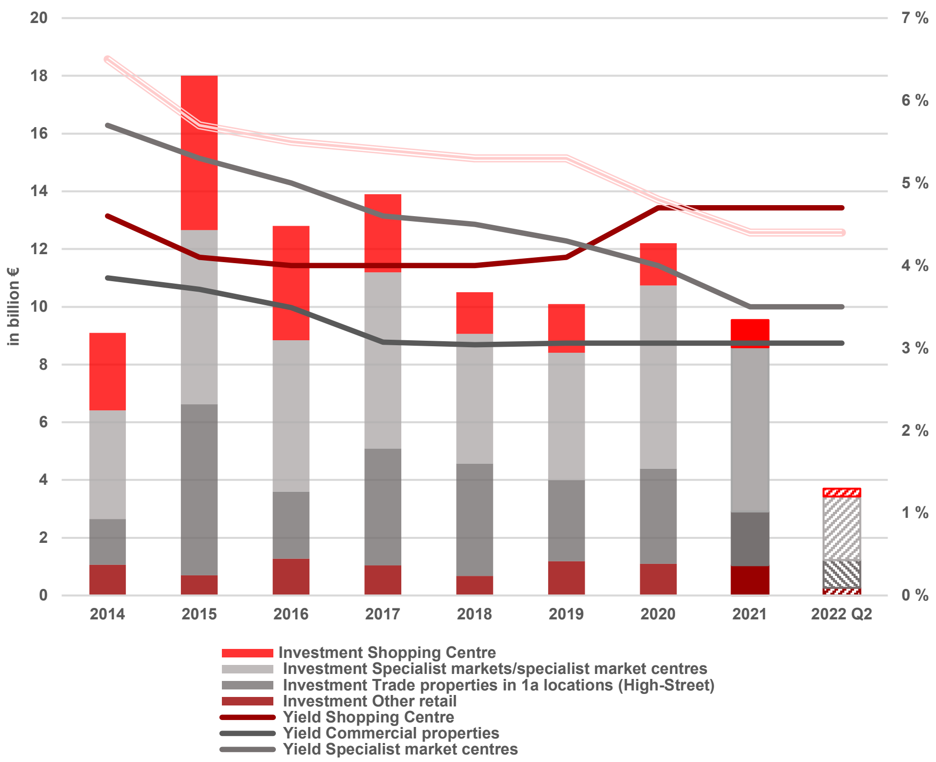
Source: National statistics office; own material

Turnover development of individual sectors



Source: National statistics office; own material

Investment volume and prime yields



Sources: CBRE (investment volume), BNP Paribas Real Estate (yields); own material

LOGISTICS MARKET

Business climate / economic situation

Always with the hope of a foreseeable end to the Covid 19 pandemic and the predicted greater economic recovery, the business climate, situation and expectations of the BVL Logistics Indicator rose steadily until around the middle of 2021. While the climate and situation continued to develop positively in the third quarter, expectations already dropped significantly in the same period in view of the shortage of raw materials and components, the associated price increases and the resulting volume and price fluctuations for logistics companies. As a result of the supply chain problems, order backlogs decreased in the course of Q4. Although a slight recovery in indicator values was hoped for the first quarter of 2022, expectations were basically nipped in the bud with the onset of the Ukraine crisis. The BVL business climate fell (relatively moderately), while business expectations (and consequently also the business climate) literally roared downwards. Inflation, exploding energy prices, persistent supply bottlenecks and the unsecured energy supply due to the threat of Russian gas supplies being cut off have since massively depressed the mood. Industry fears production stops, the transport sector, which is already characterised by very low margins, fears a wave of insolvencies due to high energy prices and a lack of orders from the manufacturing sector.

What about the supply chains in the meantime?

While many pandemic-related restrictions have been removed or reduced in Europe in recent months, the ongoing infection events in China in particular, which continues (with diminishing success) to adhere to its rigorous zero-covid strategy, still pose a high risk to supply chain security. While in 2020 the pandemic-related plant closures first in China and then gradually in the rest of the world led to severe disruptions in global supply chains, in 2021 the Suez Canal disaster and the partial port closures in Ningbo-Zhoushan and Yantian in China led to further significant intensification of supply bottlenecks with accompanying substantial price increases for primary products. In maritime transport, these events led to a huge shortage of freight capacity, namely containers, and consequently to skyrocketing freight rates. In the first half of 2022 - together with the after-effects of the disruptive events from the previous year - the week-long lockdown in Shanghai, which caused problems in so-called hinterland transport (rail and road) in particular, despite maintained port operations, especially due to a shortage of truck drivers and additional regulatory requirements, as well as renewed plant closures in China led to further disruptions.
The supply chain problems were additionally aggravated by the Russian invasion of Ukraine; on the one hand, because both Ukraine and Russia export numerous products to Germany, and on the other hand, because the transport routes of the "Silk Road" (China is Germany's most important German importer with a share of almost 10 %) run either through Ukraine or Russia and are blocked by the war or their use is highly risky (not least for insurance reasons).
Regardless of the availability of the respective modes of transport, switching to air and rail is associated with significantly higher transport costs.

What happened to re- and nearshoring?

Against this backdrop, the question arises as to what has become of companies' re- or nearshoring considerations in the face of the immense supply chain problems in the last two years. A global survey by McKinsey & Company in 12/2021 found that 92% of the supply chain managers surveyed had invested in the resilience of their supply chains, but that these investments were hardly geared towards long-term measures (such as re- or nearshoring, increasing the supplier base), but mostly involved increasing inventories and making greater use of digital technologies. According to McKinsey & Company, just 15% of the respondents have implemented measures in the area of nearshoring or the acquisition of additional suppliers. In the previous survey in 2020, 40% had planned to do so. However, the "degree of implementation" varies greatly depending on the industry. At 60%, the plans were implemented most frequently in the healthcare sector, and least frequently in the chemicals and raw materials sectors, which could now prove disadvantageous in the wake of the Ukraine crisis and the impending gas supply freeze. In the end, however, this cautious adjustment of location strategies is not surprising, since the characteristics of the factors (such as energy costs, infrastructure, labour availability, labour cost level) that originally led to the globalisation of supply chains, especially in the production sector, have not fundamentally changed. Germany, for example, still has one of the lowest unemployment rates and highest energy costs in the world. Other European countries, especially in Southern and Eastern Europe, are therefore likely to be much more attractive for nearshoring considerations.

Demand for space soars

Even if Germany should be less of a beneficiary of changing location strategies, take-up in 2021 reached a new record level and was around 25 % above the previous year's result - primarily through lettings of new buildings or project developments. And the first half of 2022 also offered a take-up result that had never been achieved before.

Despite the expected progressive deterioration of the overall economic development in the course of the year, a decline in take-up is not expected for 2022 as a whole. There are various reasons for this. The demand for space could not be satisfied in the past years. Even if demand should decline due to a worsening economic development, this should be compensated for by the existing surplus demand. In addition, the trend towards increased warehousing is continuing and will probably remain in the medium term. On the one hand, this results from the consequences of the pandemic and the Ukraine crisis (e.g. in the retail sector to safeguard local supplies in the event of disrupted supply chains, in the manufacturing sector with stock purchases to safeguard production in the event of component/raw material shortages and as protection against price increases, or in the case of medical material/equipment), but also from transformation processes that have been underway for some time, such as in the retail sector (further growth in e-commerce, also through expansion of the e-commerce share among stationary retailers) and in the automotive sector (double stockpiling due to conversion from combustion engines to electric motors).

Investment market

Demand pressure also remains high on the investment market. Yield compression has continued in 2021. However, as a result of the significant rise in financing rates and the uncertainty about their future level, yields increased by 0.1 percentage point from Q1 to Q2 2022.

However, the higher prices in recent years are probably not solely the result of high demand pressure, but also the consequence of further increases in acquisition and production costs (land prices, construction costs, higher user requirements for property quality, ESG, etc.).

In the absence of purchasing opportunities, investors are increasingly turning to second-tier and sometimes even peripheral locations.

What will the future bring?

Lots of shortages:

- Shortage of raw materials and primary products, at least until the supply chains have stabilised again, which depends not least on further events in Ukraine, but also on the pandemic development in China and will probably drag on well into next year.
- Lack of land, as the sealing of land is to be further reduced, with simultaneous high competitive pressure from other uses that are more attractive from a municipal perspective.
- Shortage of skilled workers, because according to a KOFA study from Q1 2022, around 27.6% of employees in the "transport, logistics, protection and security" sector, which already has the highest proportion of older people (> 55 years), will reach retirement age in the next 10 years, which will lead to a significant worsening of the already existing shortage of skilled workers.
- The shortage of building space and skilled workers (especially in combination) will mean that second-tier and peripheral locations will continue to gain in importance in terms of both construction activity and demand for space - and consequently also investor demand.
- The importance of digital technologies will continue to grow strongly, not least to (additionally) stabilise supply chains for which it will be important to be able to recruit sufficient IT specialists, of which there is - who knows? - there is a shortage.

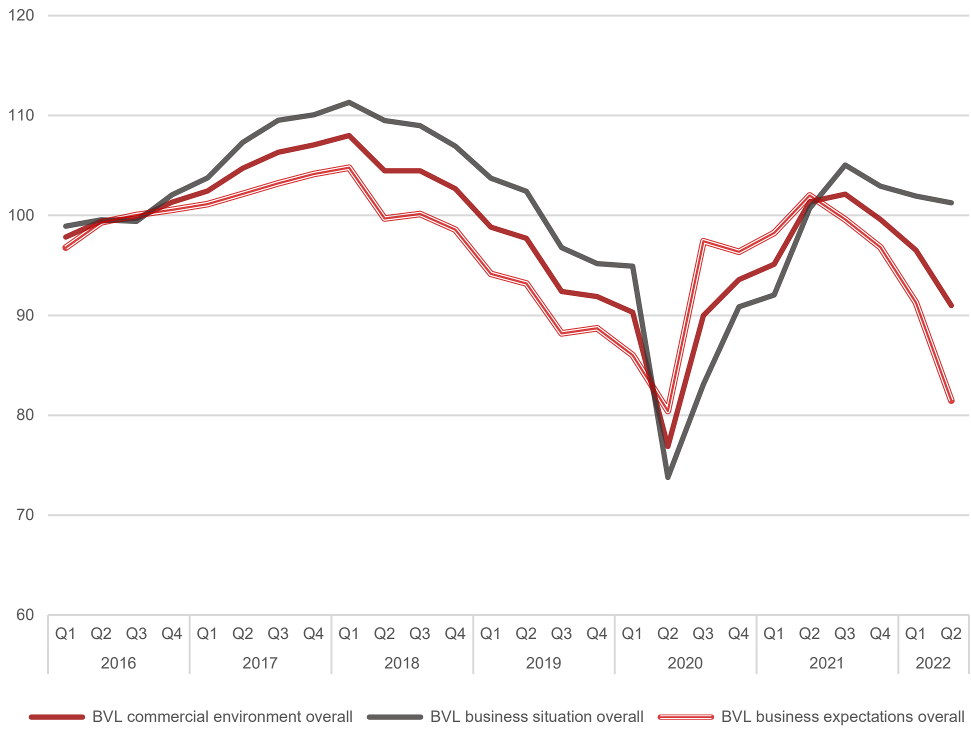
And the issue of ESG is also becoming increasingly urgent, the social component above all with regard to the skilled labour situation, the ecological one in view of the advancing climate change and the necessary detachment from Russian energy imports. In the course of the latter, the importance of renewable energies and thus their promotion will (have to) increase significantly. And it is precisely here that there is a currently unassessable potential for logistics properties, because the large flat roof areas can be used well for photovoltaic systems. On the one hand, this could result in additional income opportunities, and on the other hand, the image of logistics properties could increase, which could have a positive effect on the allocation of building land in one case or another.

In general, it can be expected that the demand for logistics properties will remain high overall, but that it will be differentiated depending on the industry, because depending on the mode of transport used, the goods concerned and the resulting industry focus, logistics companies are sometimes quite strongly affected by the effects of the pandemic and the Ukrainian crisis, but also by fundamental transformation processes (e.g. automotive vs. courier and express services).

Transport development

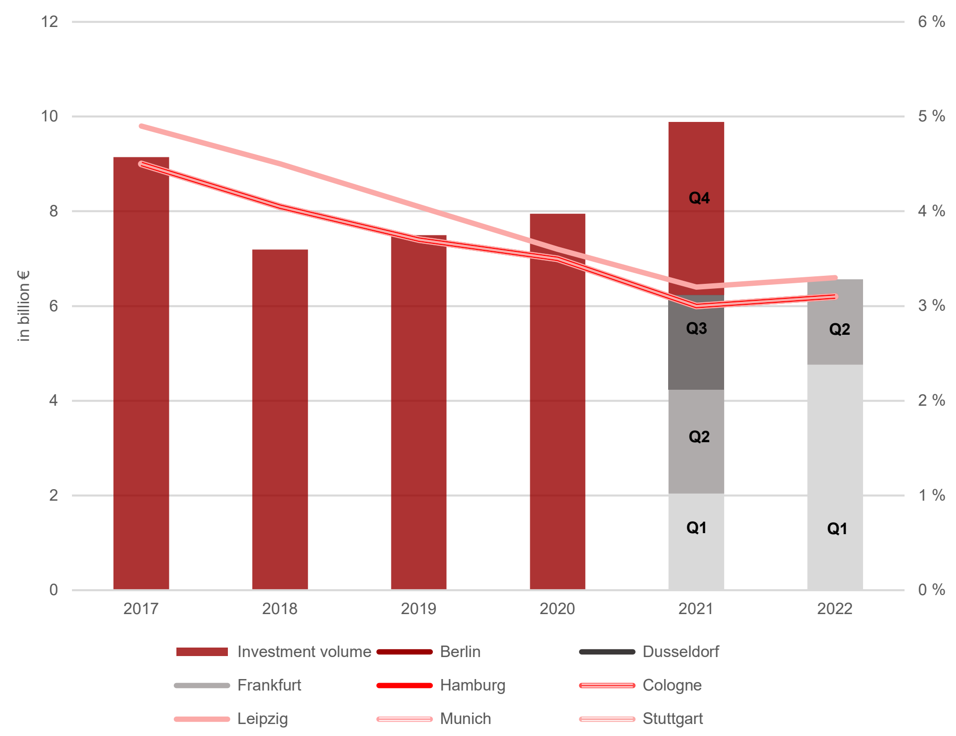
Sources: National office of freight traffic (transport volume), National statistics office (imports exports, transport index); own material

Business development



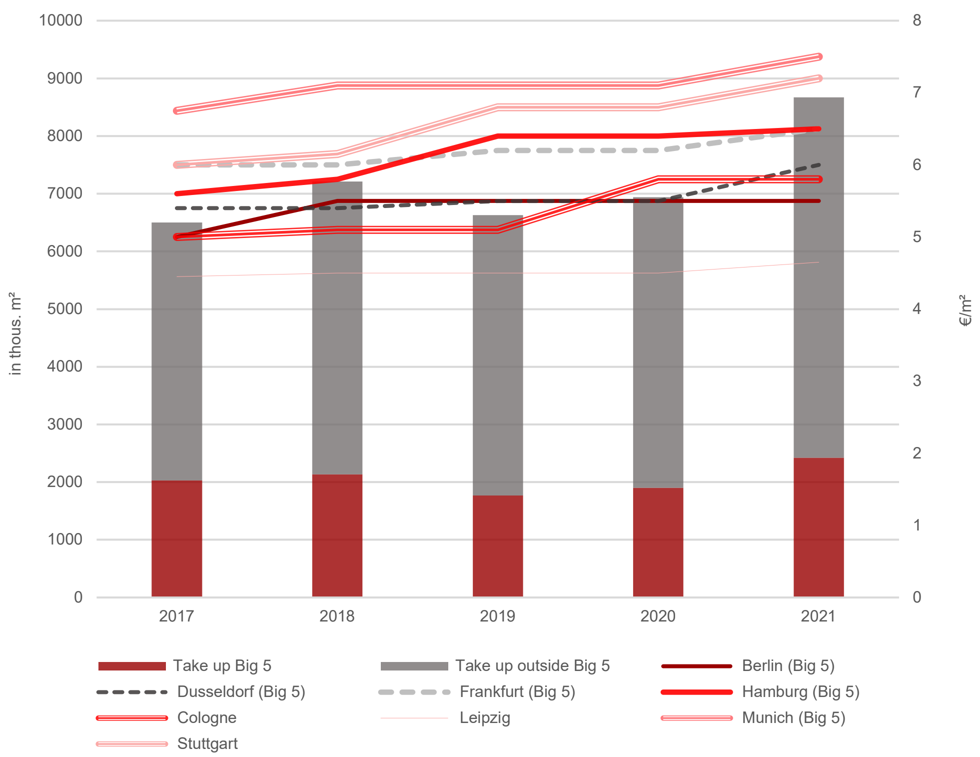
Sources: National Association of logistics (BVL), own material

Investment volume and prime yields



Sources: BNP Paribas; own material

Take up and prime rents



Sources: JLL, BNP Paribas (yield Leipzig); own material

HOTEL MARKET

The hotel industry continues to suffer

The worst crisis in the hotel industry of the past decades; this is how Dorint supervisory board chairman Dirk Iserlohe summarises the past two pandemic years. And the hotel industry continues to suffer in the first half of 2022 - even if somewhat less due to numerous relaxations of pandemic regulations. Thus, despite some recovery, performance indicators in Q2 2022 are still far below pre-crisis levels, especially in terms of revenue per available room (RevPar) and occupancy, with the top locations continuing to be affected to varying degrees. After further sharp declines in winter 2021/2022, revenue in accommodation has recently increased significantly, but in May it was still almost 10% below the pre-crisis level in February 2020.

Looking only at the months of April to December, which were equally affected by the pandemic in 2020 and 2021, domestic overnight stays in 2021 were considerably more positive than in the previous year, with an increase of around 23%, and foreign overnight stays were up by around 49%. At the same time, however, the number of establishments (re)opening and the number of beds on offer also increased in the period from April to December 2021, so that the occupancy rate across all accommodation establishments did not increase significantly (from 28.7 to 29.4 %) despite a noticeable increase in the number of overnight stays.

Sharp drop in occupancy, ADR and RevPar in 2020, only sluggish recovery in 2021

The balance for 2020 was devastating - despite a brief interim recovery between May and November - with occupancy down 60%, ADR (average daily rate) down 13% and RevPar down 68%. And the situation improved only slowly in 2021 as well. A stronger pick-up in occupancy and RevPar - similar to the previous year - was only recorded in June. The heavy financial burden on the hotels also affected their ability to pay rents, many rental / lease agreements were renegotiated and rents / leases reduced. However, the hotels and locations were affected differently by the effects of the pandemic in terms of economic losses, depending on the clientele addressed.

City hotel industry (especially MICE and luxury) still most affected

Although performance slumped across all hotel types, the Corona crisis continues to affect the city hotel industry in particular, especially the MICE (Meetings, Incentives, Conferences & Exhibitions) business, which had already been in crisis in previous years, but also the very operating cost-intensive luxury hotel industry, as these sectors are highly dependent on business travellers and international guests. In Frankfurt alone, for example, the Jumeirah, the traditional Hessischer Hof and the almost legendary Villa Kennedy closed their doors.

In terms of costs, the franchise system, which is quite widespread in Germany, is not to be neglected, as the franchise fee also puts pressure on profits. If the cost pressure remains high, the number of self-operated hotels is likely to increase.

Even if a gradual economic recovery of the hotel market sets in as the pandemic subsides, additional pressure on performance indicators (especially in the city hotel industry) is to be expected due to the moderately reduced but still quite well-filled project pipeline. The further increase in competitive pressure due to the capacity expansions is likely to be reflected in an intensified consolidation process at some locations as well as in stagnating and sometimes even falling room rates. For example, in the next two years the highest increases in bed numbers will be seen in Dusseldorf and Frankfurt, among others, which are in turn among the most affected by the pandemic due to their strategic orientation.

Rising costs meet stagnating or falling revenues

The precarious aspect of this situation: at the same time as the restrained earnings prospects, the cost pressure for the hotel industry will continue to increase - food and energy prices, increasing reporting obligations, rising personnel costs, digitalisation, ESG...

With regard to the personnel situation, it is apparent that the pandemic has led to a further worsening of the shortage of skilled workers, although the full effects of this will probably only become visible when demand picks up more clearly. The core problem, however, has been taking its toll for years. According to the figures of the Federal Statistical Office, the hospitality industry has the lowest average gross salary per full-time job of all sectors (average €4,100; lodging €2,116, catering €2,156). Together with the often family-unfriendly working hours and the great economic uncertainty during the pandemic, the profession is becoming increasingly unattractive - according to Dehoga, 15% of employees have changed the industry in the course of the pandemic alone. In addition, according to KOFA, the number of training contracts concluded has been declining since 2011 (both in terms of demand for and supply of training places), a development which, according to the figures of the Federal Statistical Office, experienced another significant boost in the crisis year 2020. This further exacerbates the shortage of skilled workers, as not only are staff "migrating" to other sectors such as retail or logistics, but over time there are also fewer and fewer new recruits. The new wage settlements in spring 2022 are therefore certainly a step in the right direction, forcing significant wage increases for employees to a level above the statutory minimum wage, which will rise to €12 in October 2022 - in some cases by up to more than 20% - and thus perhaps making the profession more attractive again - also for junior staff, although Dehoga points out, despite all the euphoria, that many employers "already pay significantly above the collective wage agreement". At the same time, Christoph Lueg, chairman of the Dehoga's tariff protection committee, states that these tariff increases will only be possible "through price adjustments in the establishments and will ultimately have to be paid by the guests". Against the background of the current inflation trend and the price sensitivity of Germans, which is already quite high in comparison to the rest of Europe, it remains to be seen how well price increases can really be implemented in the end without occupancy suffering too much.

In order to counteract the pronounced shortage of skilled workers in another way, but also to meet changing customer needs, more and more operators are establishing limited-service concepts in which some of the usual hotel services (such as check-in and check-out, payment, etc.) are replaced or at least supplemented by digital offers (which, however, in turn makes the job description of hotel clerk less attractive). But the introduction of digital concepts, whether to save costs or to secure one's own competitiveness, also means an investment effort that first has to be met, which is likely to pose major problems for many businesses in view of the reduced liquidity reserves due to the crisis. Since the state's Corona aid, which is structured differently, often only allowed medium-sized operators (with a turnover > €54.5 million per operation) to claim a small part of their loss of turnover, they are likely to face similar difficulties than smaller establishments with regard to the amount of their reserves (and thus their ability to invest).

However, it is precisely these liquidity reserves that are urgently needed with regard to the issue of ESG, as there is a considerable need for measures due to the predominantly older building stock and the very resource-intensive operation in the sector.

New trend counteracts capacity expansion to some extent

Also because of the economically difficult situation of the hotel industry, but above all because of the great dynamism of the office markets in particular, a trend has developed that to a certain extent runs counter to the effects of bed capacity expansions and is increasingly gaining in importance: the conversion of hotel properties. This development mainly affects the central locations of the A-cities, as office uses can generally realise significantly higher rents than hotels (especially with regard to full-service operations). However, conversions are not always possible without further ado due to problems with building law (e.g. due to building regulations, insufficient ceiling heights, significant loss of space). Two very striking examples of current conversion projects are the Grand Hotel Esplanade in Berlin, whose sales price as a project site for a mixed-use development was higher than its market value as a hotel site, and the Villa Kennedy in Frankfurt, which, according to recent media reports, is probably to be converted into luxury flats for senior citizens. In B- and C-cities, the described conversion tendencies are much less pronounced due to the lower rent price spread between office and hotel uses. Serviced flats are also increasingly becoming an alternative to hotel use.

Where is the journey heading?

The assessment of future developments in the hotel real estate market has hardly changed since the last KENSTONE market report: greater differentiation of hotel categories and locations with regard to performance, pressure on supply will remain for the time being, continuing consolidation process with advancing brand concentration, market entry of new concepts, sustainability as an increasingly important competitive factor.

The feared wave of insolvencies has not yet occurred, despite the reintroduction of the obligation to file for insolvency in May 2021. This is due on the one hand to some takeovers of ailing companies, but also to various state aids (from bridging aid IV to short-time working allowance), which still applied until March/April 2022, so it remains to be seen how the situation will look in the months after they expire. Operator chains in particular will presumably increase their focus on the holiday hotel industry. On the investor side, interest in C and D locations as well as in holiday hotels is expected to continue to rise.

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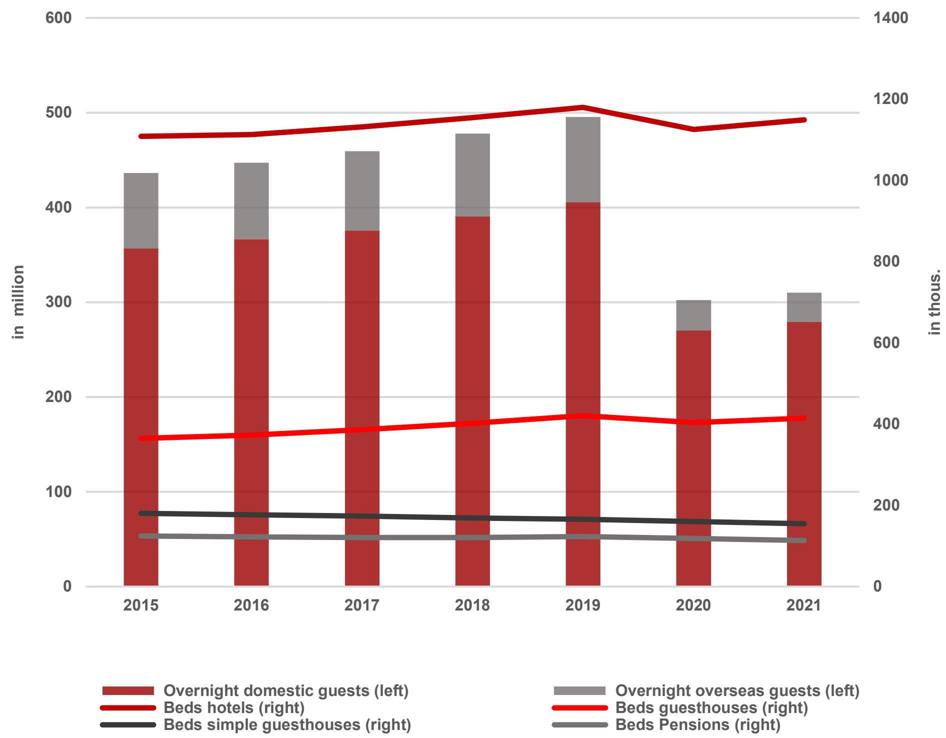
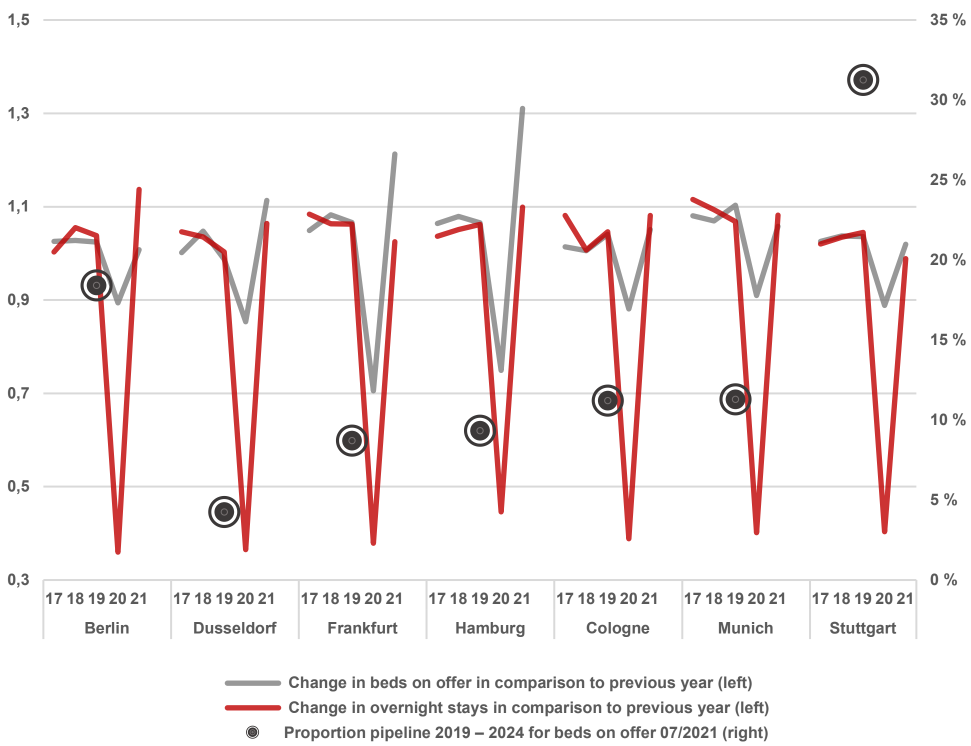
Overnight stays and number of beds on offer



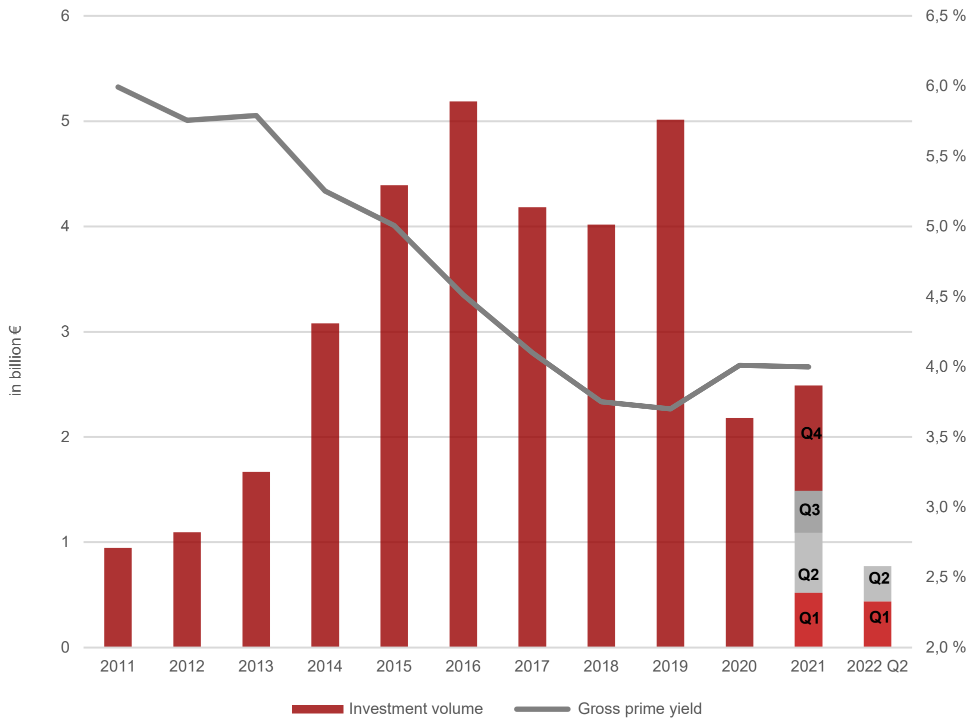
Sources: National statistics office; own material

Comparison of development of beds and overnight stays



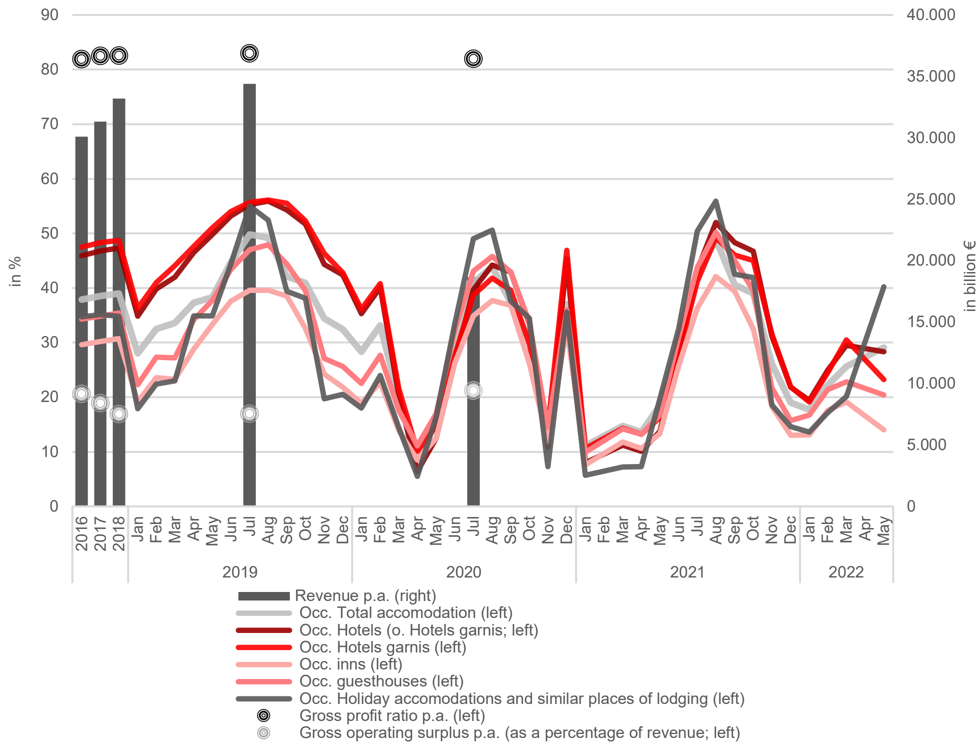
Sources: Statistical office of the federal states (beds, overnight stays), CBRE (pipeline); own material

Investment volume and prime yields



Sources: BNP Paribas (investment volume), Colliers (yield); own material

Operating ratios



Sources: National statistics office; own material

HOUSING MARKET

Price dynamics increase further in 2021

Measured by the vdp property price index, the increase in residential property prices gained further momentum in 2021. Owner-occupied residential property rose by 11.3% compared to the previous year (in 2020, the increase was 7.4%), while multi-family houses increased by an average of 9.4% (after 6.2% in 2020). And this development also continued in the first quarter of 2022. Important fundamental factors, on the other hand, have been developing much more moderately for quite some time, which is why the sustainability of the current price level is increasingly being questioned, especially in the major cities.

Bubble or not?

But is there a bubble or not? - is probably the question with the greatest implications for the residential real estate market at the moment. As is so often the case, there is general disagreement on the answer to this question. While some already see bubbles bursting in their mind's eye, the Bundesbank has so far (still) confined itself to attesting to price exaggerations in the housing market that are not limited to conurbations - for 2021 in the range of 15 to 40 % above the value justified by socio-demographic and economic fundamental factors, in 2020 it was still up to 30 % at the peak. The increasing decoupling of price development from fundamental factors has now also prompted BaFin, the Federal Financial Supervisory Authority, which sees structural risks in addition to cyclical ones, to introduce stricter financing rules. Thus, since 01.04.2022, a sectoral systemic risk buffer must be set aside for a period of twelve months on loans secured by residential real estate (consisting of 2% hard core capital).

The market must be seen in a differentiated way

The owner-occupier market is strongly characterised by owner-occupiers, so speculation on price increases is not usually a priority when purchasing. A broad-based price bubble is therefore unlikely. However, the picture is somewhat different for condominiums, especially in new construction. In recent years the focus of completions has been on small flats with one or two rooms, which are classic investment properties, as owner-occupiers generally demand larger (often family-sized) flats. Here, a locally dependent cooling of the market would be more conceivable.

In contrast to the owner-occupier market, the yield-oriented market for multi-family houses is already much more characterised by speculative elements. This applies in particular to the expectations attached to the future development of rents. The lack of investment alternatives in recent years, coupled with high investment pressure, has caused purchase prices to rise to such an extent that some investments are only likely to pay off if financing interest rates remain low and rents continue to rise. However, a look at the vdp property price index shows that, after a relatively stable phase between 2013 and 2018 (in a range of + 3.9 to 4.8%), growth in new contract rents slowed in 2019 and 2020. In the same period, however, capital values continued to rise steadily - with a small bend in 2019 and 2020 - and thus became increasingly decoupled from rents. In view of increasing financing costs, a cooling of the market is at least conceivable due to the wait-and-see attitude of investors and sellers.

Will rising financing rates and high inflation be followed by a market turnaround?

If we take a look at the USA, where the Fed has already heralded the turnaround in interest rates and financing rates have risen significantly, a cooling of the home ownership market (which, in contrast to the German market, is characterised by variable financing rates) has been evident for several weeks: many people can no longer afford financing, and as a result the number of transactions has declined noticeably, and price reductions can already be observed.

In Europe, the first (much more moderate) key interest rate hike took place at the end of July. Financing rates in Germany have already risen significantly since the end of 2021, not least in anticipation of this step - from below one percent to over three percent at the end of June - a level at which they were last more than ten years ago. And it can be assumed that they will rise even further in the course of the second half of the year. In addition, as is well known, property prices have risen across the board in the last ten years - both for owner-occupied homes and flats and for apartment buildings. So there is much to suggest that the market in Germany will at least calm down. The fact that nominal interest rates are expected to rise, but that very high inflation will still result in low real interest rates, could have a stabilising effect on prices.

However, rising financing costs are likely to have an impact not only on the size of the demand group, but also on new construction both in the owner-occupied home sector and in multi-storey residential construction, which is already lagging behind the "target".

The illusion of 400,000 new apartments per annum

While completion figures have risen steadily in recent years, the result in 2021 was not only a good 4 % below the previous year's figure, but also far from the new federal government's declared target of 400,000 units per year. Due to the simultaneous increase in the number of permits, the construction backlog has increased further and is now at a level that, according to the Federal Statistical Office, was only exceeded in the mid-1990s - i.e. at about the peak of the subsidy-driven construction boom in the course of reunification. The increase in the construction overhang suggests that the lower completion figures, at least in the past year, do not result from a decreased willingness to build, but from bottlenecks on the production side, mainly due to high capacity utilisation in the construction industry, shortages of materials and personnel. In view of the current immense problem cocktail of cost explosion, supply difficulties, shortage of skilled workers and labour, further increasing construction requirements (especially with regard to sustainability aspects), rising financing interest rates and scarce land availability, it is unlikely that there will be a significant increase in construction activity, especially in multi-storey housing, without drastic and more targeted countermeasures (especially in the form of meaningful subsidies). Without drastic and targeted countermeasures (especially in the form of sensible subsidy models, the streamlining of approval processes, the provision of building land or the activation of building land reserves) at political level, not only further declining completion figures but also a declining construction volume overall can be expected. In the rental housing sector, this will of course affect not only, but above all, the socially oriented housing companies, such as cooperatives, for which it is hardly possible any more to present new construction economically due to their generally moderate rent levels. According to a survey by the GdW, the umbrella organisation of the housing industry, 64% of socially oriented housing companies have to put new construction projects on hold in view of the current serious problem constellation, and around ¼ fear that they will not even be able to implement planned new construction measures for apartment buildings. This could result in additional pressure on residential rents in tight markets.

A lot does not necessarily mean needs-based

At the same time, high completion figures alone do not guarantee an easing of pressure on housing markets, if construction is not demand-oriented at the same time. For example, the ZIA Spring Report points out that housing completions, especially from 2014 onwards, are very concentrated on small flats (with one to three rooms), while the figures for units with five or more rooms are declining and have only developed moderately positively even for four rooms [It should be noted that the Federal Statistical Office also counts closed kitchens as rooms, which somewhat limits the informative value, especially for new flats, as open kitchens have become much more important in recent years]. At the same time, the top seven cities, which are known to have the tightest housing markets, have had stagnating, and in some cases even slightly declining population figures for three to four years, which is mainly due to migration losses to the surrounding areas in all age groups (with the exception of 18- to 30-year-olds) - especially families. This development is likely to have been reinforced not least by the considerable lack of sufficiently large affordable housing.

Vacancy rates rise (minimally)

The population did not increase in 2020, mainly due to the high excess mortality caused by Covid 19 and the slump in immigration. The Federal Statistical Office's projection for 2021 also assumes a stagnating population. With high completion figures at the same time (despite the decline), this leads to a lower demand overhang on the housing market, and in some (C and D cities) even to an easing. As a result, empirica registered rising vacancy rates for the first time in 15 years, not only in the countryside but also in the cities, albeit at a minimal level and very clearly below the fluctuation reserve. According to the spring survey, the focus of vacancies is on small flats. Large (family-sized) units remain scarce.

What will the future bring?

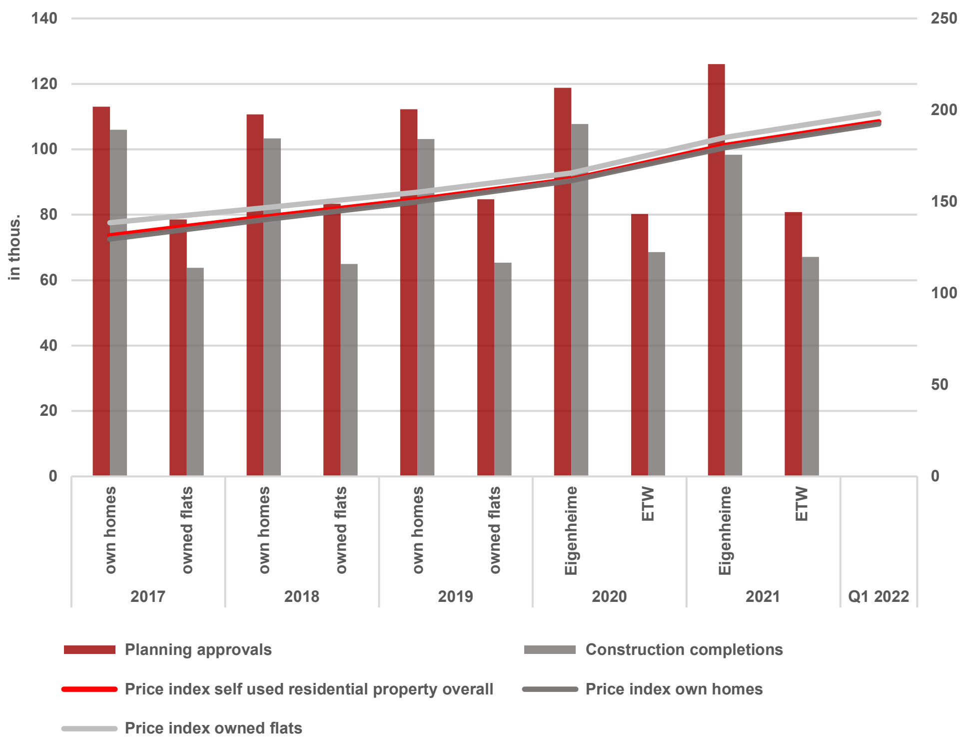
It can be assumed that financing costs will continue to rise in the coming months. The current effective interest rate level for housing loans to private households (new business) with an initial fixed interest rate of more than 10 years of 2.42 % (as of May 2022) was last exceeded in August 2014. Since then, interest rates - with a corresponding effect on financing costs - have been permanently low. Purchase prices, on the other hand, have risen considerably. Fixed-interest periods (for private households) of more than 10 years have increased significantly since around 2014, but these will also gradually expire in the coming years. Follow-up financing will then presumably have to be provided at significantly less favourable conditions. In addition, the redemption period is significantly longer when interest rates are low and hardly any repayments are made in the first few years. It is therefore quite conceivable that in the medium term one or two owners will be forced to sell because they can no longer service their debts. However, a wave of sales is not to be expected - at least from today's perspective. Further financial burdens may also result from possible renovation obligations to make existing buildings more energy-efficient in the course of the climate change. Here, too, some owners are likely to reach their financial limits.

Institutional investors are also likely to struggle with rising financing rates, which basically counteract inflation protection. With growing financing costs, alternative investment opportunities are also becoming more attractive, which could lead to a shift in investment volumes and thus to a reassessment of the importance of real estate as an asset. High inflation, on the other hand, is more likely to have a demand- and price-stabilising effect due to the resulting low real interest rates.

If demand for property remains largely unchanged, investor interest in secondary and tertiary locations is likely to increase further. Higher yields can still be realised there, and there is more potential for rent increases than in the tense markets of the major cities, especially in the Top7, which have been the main focus so far.

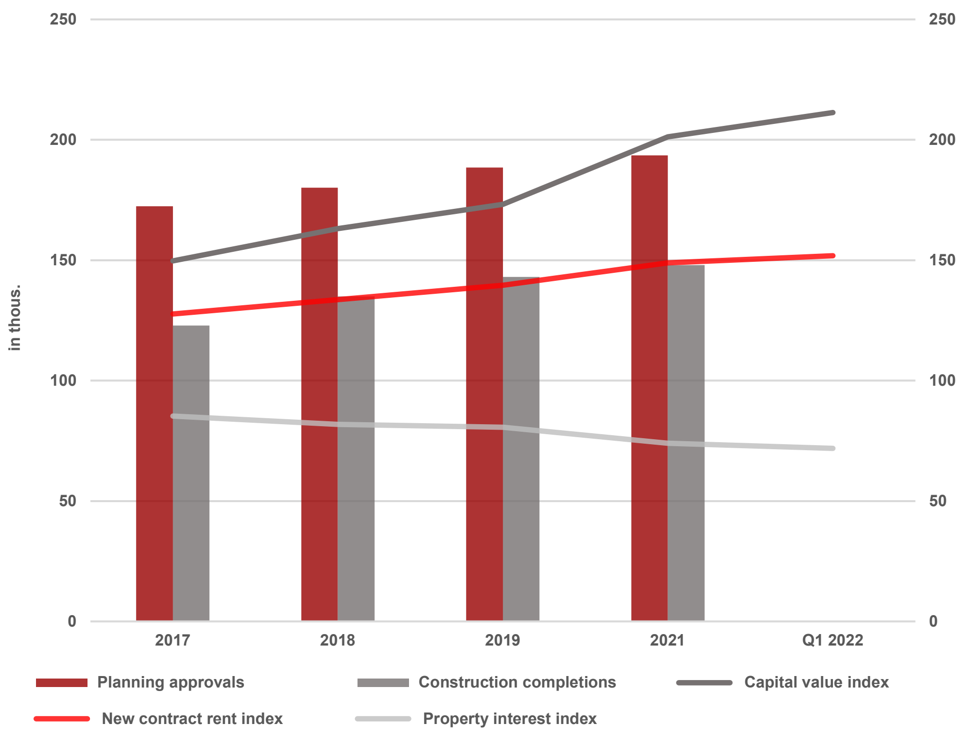
Against the background of the continuing lack of affordable housing for low and middle income groups in some markets, local authorities will increasingly try to intervene in building activity in a regulatory way and strengthen the construction of new rent-controlled housing. It is to be hoped that in future quantity will not take precedence over adequacy. At the same time, given the current circumstances, it will hardly be possible to maintain the current construction volume without sensible political countermeasures, let alone actually achieve the federal government's housing construction target. A major challenge will be the high construction and land costs combined with very pronounced rent sensitivity. Neighbourhood solutions are likely to gain further importance in new construction due to the goal of short distances (keyword 10-minute city).

Residential property (own homes, owned flats)



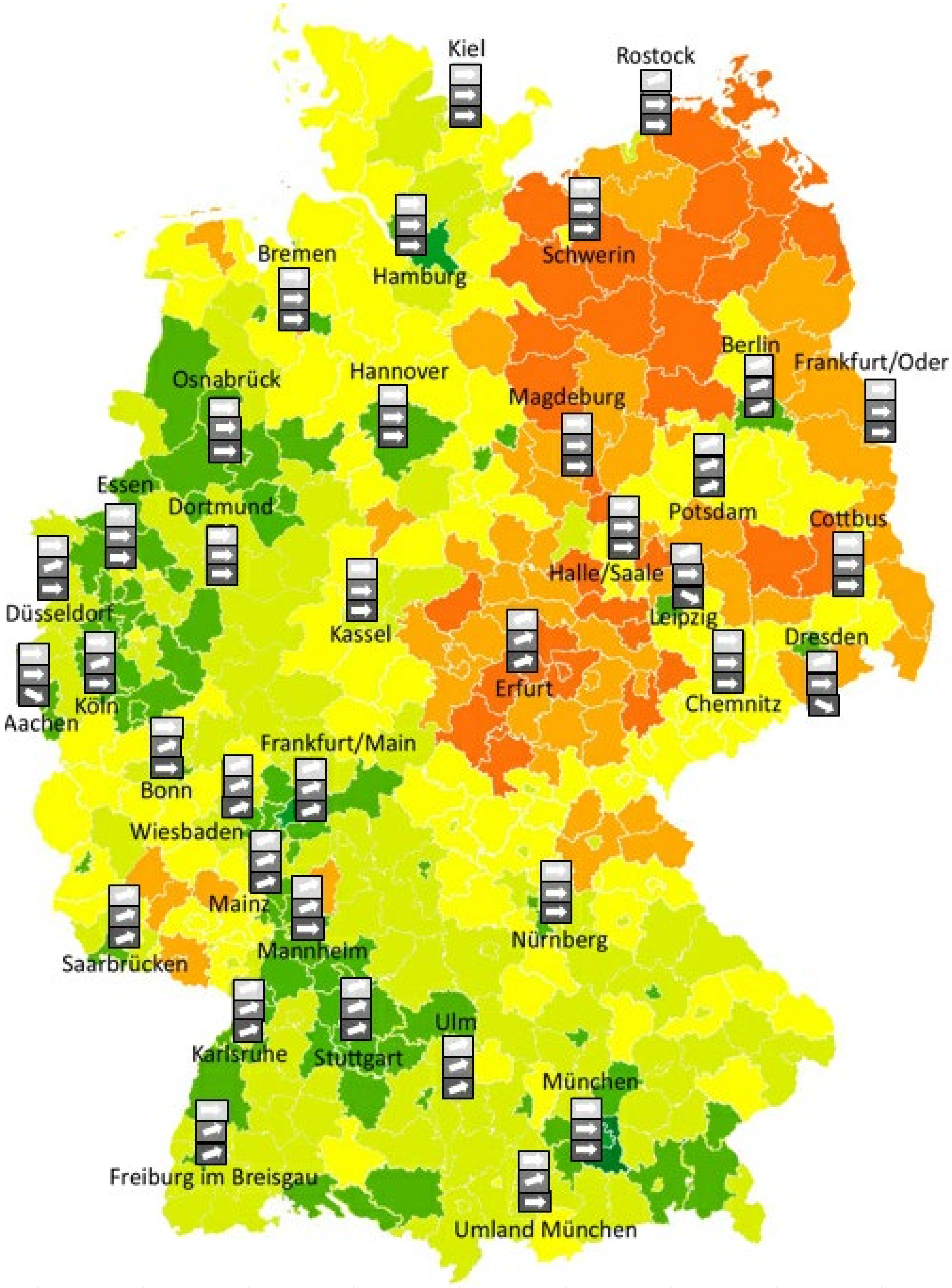
Sources: vdp Research (price index), National statistics office (approvals, completions); own material

Multi-family houses

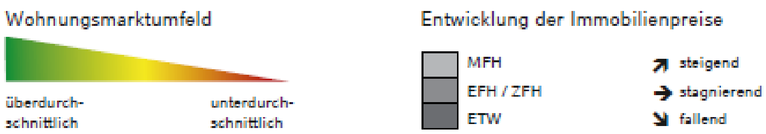


Sources: vdp Research (capital values, rents, interest rates) National statistics office (approvals, completions); own material

Market outlook 2022



Sources: KENSTONE



MARKET INDICATORS

Market indicators 2020 – Q2 2022 Office Market

		Berlin 2020 - 2021 *2022*	Dusseldorf 2020 - 2021 *2022*	Frankfurt 2020 - 2021 *2022*	Hamburg 2020 - 2021 *2022*	Cologne 2020 - 2021 *2022*	Leipzig 2020 - 2021 *2022*	Munich 2020 - 2021 *2022*	Stuttgart 2020 - 2021 *2022*
Take up	thous. m²	710 - 834 *Q2 364*	275 - 314 *Q2 177*	385 - 538 *Q2 242*	333 - 477 *Q2 302*	211 - 337 *Q2 232*	139 - 168 *Q2 69*	568 - 661 *Q2 391*	141 - 140,7 *Q2 216,4*
Prime rent	€/m²	40 - 43 *Q2 43*	28,5 - 28,5 *Q2 30*	47 - 47 *Q2 47*	32 - 33 *Q2 33*	26 - 26,5 *Q2 27*	17 - 17 *Q2 18*	39,5 - 43 *Q2 43*	25,5 - 25,5 *Q1 29,5*
Prime yield	%	2,55 - 2,4 *Q2 2,55*	2,9 - 2,75 *Q2 2,9*	2,75 - 2,65 *Q2 2,8*	2,65 - 2,55 *Q2 2,7*	2,95 - 2,6 *Q2 2,75*	3,6 - k.A. *k.A.*	2,55 - 2,5 *Q2 2,6*	k.A.
Vacancy	%	2,4 - 3,4 *Q2 3,4*	8,8 - 9,2 *Q2 9,8*	7,8 - 8,5 *Q2 8,8*	4,1 - 4,1 *Q2 3,9*	3,6 - 3,6 *Q2 3,3*	4,8 - 4,3 *Q2 4,1*	3 - 4,3 *Q2 4,3*	2,1 - 1,8 Q2 2,4
Take Up/available space	%	57 - 61	30 - 33	26 - 32	43 - 64	57 - 93	65 - 83	48 - 44	k.A.
Proportion pipeline to existing	%	*24,2 - 26* *Q2 23,3*	*8,5 - 11,3* *Q2 11,8*	*13,3 - 12,6* *Q2 12,4*	*11,7 - 9,6* *Q2 9,1*	*8,5 - 8,1* *Q2 7,5*	*7,3 - 13,5* *Q2 13,4*	*16,9 - 16,4* *Q2 16,2*	k.A.
Pre-rental quotient	%	*43,4 - 47,7* *Q2 38,4*	*71,9 - 75,6* *Q2 41,3*	*53,7 - 37,3* *Q2 39,9*	*52,6 - 61,3* *Q2 67,9*	*58,7 - 56,4* *Q2 53,4*	*52,2 - 63,5* *Q2 65,6*	*45,5 - 41,8* *Q2 49,2*	k.A.
Available space in construction /take up p.a.	%	106,9 - 80,5	25,5 - 16,9	74 - 72,1	58 - 36,5	39,3 - 22	23 - 23,2	97,2 - 86,5	k.A.

Sources: BNP Paribas Real Estate (Take Up, yield, vacancy), JLL (rent), own calculations; own diagram

Market indicators 2020 – Q2 2022 Retail Market

-			Berlin	Dusseldorf	Frankfurt	Hamburg	Cologne	Leipzig	Munich	Stuttgart
Prime rent High Street 80 - 120 m²	€/m²	2020 - 2021	380 - 380	310 - 310	305 - 305	310 - 310	235 - 235	110 - 110	370 - 370	190 (2019)
Prime rent High Street 300 - 500 m²	€/m²	2020 - 2021	160 - 160	170 - 170	155 - 155	180 - 180	115 - 115	50 - 50	240 - 235	90 (2019)
Gross prime yield	% *(Q1 each)*	2020 - 2021	2.6 - 2.6	36953,00	2.9 - 2.9	2.8 - 2.8	3.1 - 3.3	3.3 - 3.3	2.4 - 2.4	3.1 - 3.3
Gross yield multipliers	x-fold	2020/2021	32.0 – 34.0	33.0 – 35.0	32.0 – 34.0	33.0 – 35.0	30.5 – 32.5	22.0 – 24.0	39.0 – 41.0	22.0 – 24.0
Population level	in thous.	2020	3,664	621	764	1,852	1,083	597	1,488	630
	%	2011 - 2019	10.3	5.5	12.8	7.5	7.3	16.3	8.7	7.6
Population forecast	%	2012-2030	10.3	3.8	14.2	7.5	7.9	13.9	14.1	7.0
GDP per head	€/head	2018	75,890	96,384	99,121	95,640	84,287	65,914	106,176	106,128
Unemployment rate	%	2020 - 2021	9.7 - 9.8	7.8 - 7.9	6.7 - 6.6	7.6 - 7.6	9.2 - 9.5	6.3 - 7.3	4.8 - 4.9	5.3 - 5.2
		2022	*Jun 8.7*	*Jun 6.6*	*Jun 5.7*	*Jun 6.7*	*Jun 8.4*	*Jun 6.0*	*Jun 2.8*	*Jun 3.9*
Purchasing power index		2020 - 2021	91.3 - 92.4	116.5 - 116.0	113.5 - 110.5	109.3 - 108.3	105.1 - 105.0	87.3 - 88.2	134.6 - 132.8	113.6 - 112.5
		F 2022	93.1	115.6	110.7	107.4	105.3	89.0	130.5	111.2

Sources: Comfort (rents, gross yield multipliers), JLL (yields), National statistics office (population), Bertelsmann Stiftung (population forecast), National Job Centre; (ALO), GfK (purchasing power); own material

Market indicators 2020 - Q2 2022 Logistics Market

			Berlin	Dusseldorf	Frankfurt	Hamburg	Cologne	Leipzig	Munich	Stuttgart
Prime rent High Street 80 - 120 m²	€/m²	2020 - 2021	380 - 380	310 - 310	305 - 305	310 - 310	235 - 235	110 - 110	370 - 370	190 (2019)
Prime rent High Street 300 - 500 m²	€/m²	2020 - 2021	160 - 160	170 - 170	155 - 155	180 - 180	115 - 115	50 - 50	240 - 235	90 (2019)
Gross prime yield	% *(Q1 each)*	2020 - 2021	2.6 - 2.6	36953,00	2.9 - 2.9	2.8 - 2.8	3.1 - 3.3	3.3 - 3.3	2.4 - 2.4	3.1 - 3.3
Gross yield multipliers	x-fold	2020/2021	32.0 – 34.0	33.0 – 35.0	32.0 – 34.0	33.0 – 35.0	30.5 – 32.5	22.0 – 24.0	39.0 – 41.0	22.0 – 24.0
Population level	in thous.	2020	3,664	621	764	1,852	1,083	597	1,488	630
	%	2011 - 2019	10.3	5.5	12.8	7.5	7.3	16.3	8.7	7.6
Population forecast	%	2012-2030	10.3	3.8	14.2	7.5	7.9	13.9	14.1	7.0
GDP per head	€/head	2018	75,890	96,384	99,121	95,640	84,287	65,914	106,176	106,128
Unemployment rate	%	2020 - 2021	9.7 - 9.8	7.8 - 7.9	6.7 - 6.6	7.6 - 7.6	9.2 - 9.5	6.3 - 7.3	4.8 - 4.9	5.3 - 5.2
		2022	*Jun 8.7*	*Jun 6.6*	*Jun 5.7*	*Jun 6.7*	*Jun 8.4*	*Jun 6.0*	*Jun 2.8*	*Jun 3.9*
Purchasing power index		2020 - 2021	91.3 - 92.4	116.5 - 116.0	113.5 - 110.5	109.3 - 108.3	105.1 - 105.0	87.3 - 88.2	134.6 - 132.8	113.6 - 112.5
		F 2022	93.1	115.6	110.7	107.4	105.3	89.0	130.5	111.2

Sources: (rental market), BNP Paribas Real Estate (investment market, rental market Leipzig); own material

Market indicators 2020 – Q2 2020 Hotel Market

			Berlin	Dusseldorf	Frankfurt	Hamburg	Cologne	Munich	Stuttgart
			2020 - 2021 *2022*	2020 - 2021 *2022*	2020 - 2021 *2022*	2020 - 2021 *2022*	2020 - 2021 *2022*	2020 - 2021 *2022*	2020 - 2021 *2022*
Gross prime yield	%	(Q4 each)	4.4 - 4.4 Q2 4.5	4.3 - 4.3 Q2 4.55	3.75 - 3.75 Q2 4.0	3.75 - 3.75 Q2 4.0	4.1 - 4.1 Q2 4.3	3.7 - 3.7 Q2 3.95	4.1 - 4.1 Q2 4.3
Beds available	thous.		134,4 - 135,5 *May 144*	23,9 - 26,5 *May 30,3*	42,2 - 51,2 *May 57,8*	54,5 - 71,4 *May 76,6*	30 - 31,5 *May 35,5*	80,1 - 84,7 *May 91,4*	20,1 - 20,5 *May 22,6*
Occupation	%		26,3 - 30,2 *May 40*	21,2 - 21 *May 0*	24,3 - 24 *May 30,9*	30,4 - 32,1 *May 0*	25 - 25 *May 0*	27 - 28,6 *May 0*	24,3 - 22,3 *May 30,1*
Arrivals	100 thous.		49,5 - 51,3 *May 32,7*	10,8 - 11,3 *May 7,4*	21,6 - 21,4 *May 13,8*	31,7 - 33,2 *May 22*	14,4 - 14,8 *May 10,1*	29,9 - 31 *May 6,3*	8,3 - 7,9 *May 5,3*
Share of overseas guests	%		26 - 25 *May 31,7*	28,2 - 25,7 *May 27,4*	32,3 - 28,8 *May 30,6*	15,1 - 15,1 *May 15,7*	22,4 - 23,6 *May 25,6*	29,8 - 28,8 *May 34,7*	20,4 - 20 *May 20,7*
Overnight stays	100 thous.		122,8 - 139,6 *May 84,3*	18,3 - 19,4 *May 12,5*	40,9 - 41,9 *May 26,2*	68,8 - 75,6 *May 48,2*	25,6 - 27,6 *May 18,1*	70,3 - 79,5 *May 14,5*	16,5 - 16,3 *May 10,3*
Share of overseas guests	%		30,3 - 29,1 *May 36,3*	69,7 - 27,2 *May 29*	34,6 - 31,3 *May 34,1*	16,7 - 16,5 *May 17,8*	24 - 23,9 *May 26,1*	31,6 - 30,1 *May 37,1*	23,6 - 23,4 *May 24*

Sources: Colliers (yield), Statistical office of the federal states (capacity usage, overnight stays, arrivals), own material

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