

REPORT 2024

REGULATION IN THE GERMAN HOUSING MARKET

What investors need to know:
Legal framework and current
market trends in leasing

Better never settles



CONTENTS

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FOREWORD

AS EUROPE'S LARGEST ECONOMY WITH A GROWING POPULATION AND CONSISTENTLY STRONG DEMAND FOR HOUSING, GERMANY OFFERS EXCELLENT LOCATION CONDITIONS. HOWEVER, WHAT TRULY SETS THE GERMAN HOUSING MARKET APART IS ITS HIGH PROPORTION OF TENANTS: 50 PER CENT OF THE GERMAN POPULATION LIVES IN RENTED ACCOMMODATION - MORE THAN IN ANY OTHER EU COUNTRY. THIS LEADS TO EXTENSIVE REGULATION OF THE MARKET, WHICH CAN BE DIFFICULT TO NAVIGATE.

To protect tenants in particular, Germany's historically large rental market is subject to numerous laws, both in terms of direct rent control and regulations related to construction and energy Statusards. This regulation is further complicated by Germany's federal structure and its legal system, where legislation is passed at the federal, state, and municipal level. As a result, laws can vary regionally, meaning that different rules may apply in two different municipalities. Furthermore, these laws are subject to frequent changes.

Anyone active in the German housing market needs a clear understanding of the applicable laws to make informed investment decisions. Through the collaboration between Cushman & Wakefield and Hogan Lovells, a report has been created that combines market and investor expertise with legal competence, offering a comprehensive view of the subject. While the report does not replace individual consultation or a thorough analysis of the legal environment, it provides insight into where the pitfalls of Germany's rental regulation "patchwork" lie.

The report begins by providing background information on Germany as a location and its federal legislation. It then examines selected legal instruments that investors and landlords face: What types of residential lease agreements exist? How are rents determined, and what does the rent cap (*Mietpreisbremse*) mean? Which areas are subject to special regulations? What are the current amendments to the Buildings Energy Act? The fourth chapter takes a look at current market developments, focussing on the emerging sub-segment of micro apartments and investment activity.

We are pleased to accompany you on your journey through the regulations of the German housing market and wish you an enjoyable read!



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02

GERMANY: LOCATION ADVANTAGES AND LEGAL SYSTEM

GERMANY'S HOUSING MARKET HAS BEEN POPULAR WITH INVESTORS FROM BOTH WITHIN THE COUNTRY AND ABROAD FOR YEARS. WITHIN EUROPE, IT IS CONSIDERED PARTICULARLY STABLE, WITH DEMAND FOR HOUSING CONSISTENTLY ON THE RISE, AND THE RENTAL HOUSING MARKET BEING HISTORICALLY WELL-ESTABLISHED. AT THE SAME TIME, ESPECIALLY THE RENTAL HOUSING MARKET IS STRICTLY REGULATED. DUE TO GERMANY'S FEDERAL LEGAL SYSTEM, THE LAWS THAT PROPERTY OWNERS AND INVESTORS MUST ADHERE TO OFTEN REQUIRE CAREFUL SCRUTINY.



The demographic development in Germany is leading to a persistently high demand for housing, which is driving long-term demand, particularly in the metropolitan areas.

HELGE ZAHRT

Head of Research & Insight Germany
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GERMANY'S LOCATION ADVANTAGES: STRONG ECONOMY, LARGE RENTAL MARKET, AND CONSISTENTLY HIGH DEMAND FOR HOUSING

GERMANY IS REGARDED AS A HIGHLY APPEALING MARKET, PARTICULARLY FOR INSTITUTIONAL INVESTORS. INVESTORS APPRECIATE THE STABLE MACROECONOMIC SITUATION OF EUROPE'S LARGEST ECONOMY, CHARACTERISED BY A HIGH LEVEL OF EDUCATION, A GROWING POPULATION, AND ROBUST LEGAL CERTAINTY, ALL OF WHICH PROVIDE A SOLID FOUNDATION FOR A STABLE RESIDENTIAL PROPERTY MARKET. THREE ASPECTS STAND OUT IN AN INTERNATIONAL COMPARISON.

Firstly, Germany regularly ranks among the top performers in various purchasing power indices and, according to GfK figures, with the annual disposable income rising to 26,271 euros per capita in 2023 according to GfK figures - 48 per cent more than the European average.

An even more compelling argument for investing in residential property is the large rental market: more than half of Germans live in rented accommodation, more than in any other EU country. Germany's rental market is historically established and highly liquid due to the large number of participants.

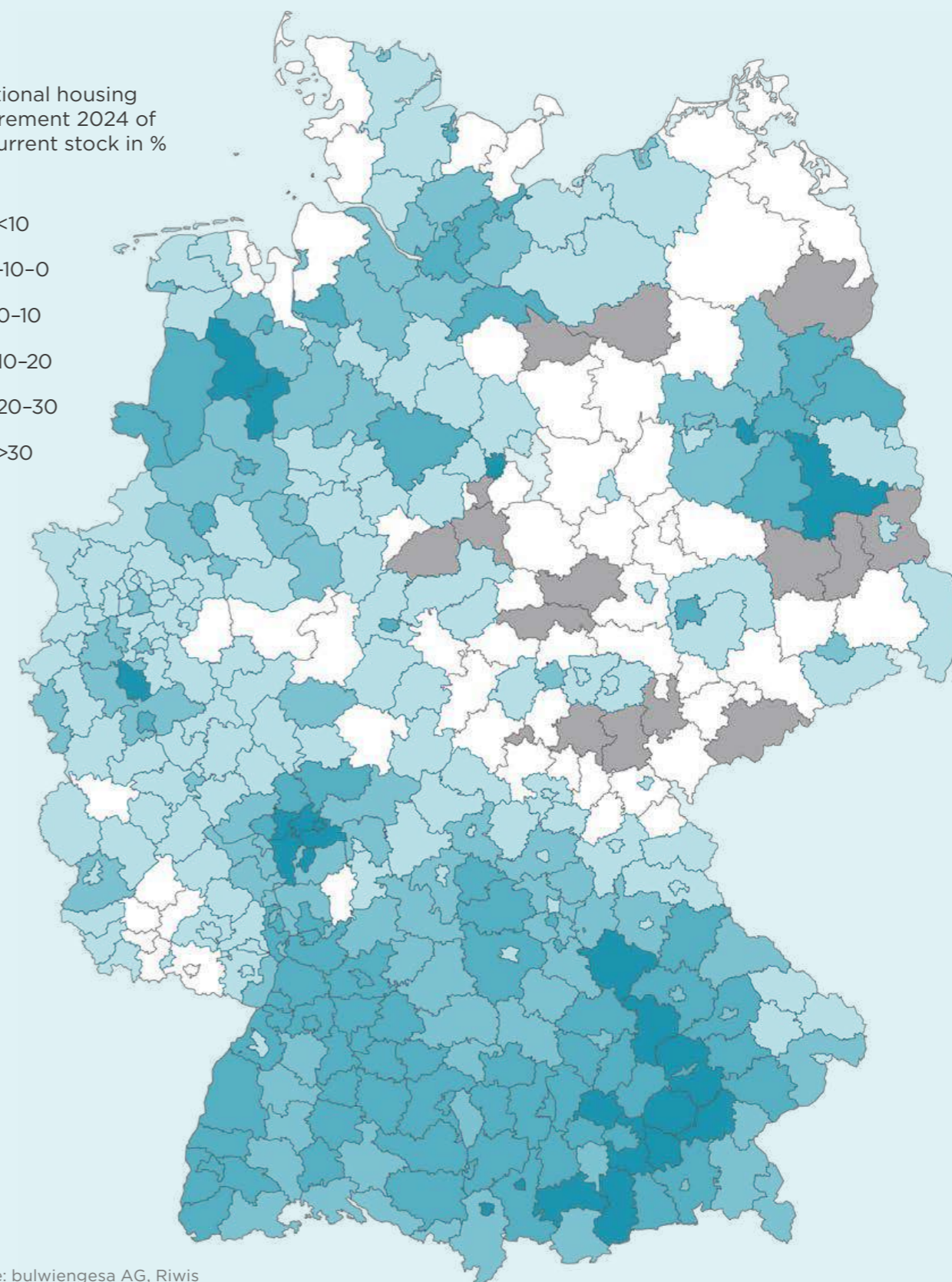
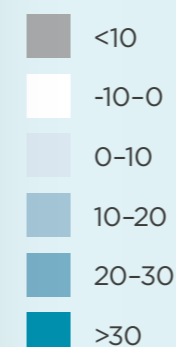
Additionally, Germany faces a significant housing shortage, which is expected to worsen in the coming years due to weak construction activity. At the end of 2022, the existing housing stock stood at 43.4 million, with an increase of only 282,800 units compared to 2021. The federal government's goal of creating 400,000 additional new homes annually was therefore not met.

In particular, cities in large metropolitan areas face substantial backlogs as a result of high demand and inadequate building completions. Among the top-7 cities, Berlin leads the list with an annual backlog of 28,990 homes by 2040, followed by Hamburg with 16,280 and Munich with 12,440 homes needed per year. Below the 10,000-mark are Cologne with 9,560 and Frankfurt with 8,060 homes, while Stuttgart and Düsseldorf have the smallest backlogs with 3,930 and 3,900 homes, respectively.

However, the significant housing shortage, coupled with sluggish construction activity, could lead to increased rental growth potential in the coming years, which may also result in a rise in the rent burden ratio (*Mietbelastungsquote*).

ANNUAL HOUSING DEMAND IN GERMANY UNTIL 2040

Additional housing requirement 2024 of the current stock in %



Source: bulwiengesa AG, Riwis
Status: 1 January 2024

FEDERALISM IN BUILDING AND TENANCY LAW

LEGAL REGULATIONS IN THE GERMAN HOUSING MARKET AFFECT BOTH THE CONSTRUCTION AND RENTAL OF FLATS. THE FEDERAL LEGAL SYSTEM IN GERMANY MAKES THESE REGULATIONS FURTHER COMPLICATED AS LEGISLATION AND ADMINISTRATION TAKE PLACE AT THE FEDERAL, STATE, AND MUNICIPAL LEVEL. GENERALLY, THE LEGAL FRAMEWORKS ARE SET AT THE FEDERAL AND STATE LEVELS, WITHIN WHICH THE MUNICIPALITIES - I.E. CITIES AND TOWNS - DEFINE THEIR SPECIFIC IMPLEMENTATIONS.

RESPONSIBILITIES IN BUILDING LAW

In principle, building law falls under the jurisdiction of the federal states. However, the **federal** government can intervene in certain areas of building law if it concerns overarching interests that go beyond state responsibilities. These include regulations on nature conservation, land distribution, and spatial planning. An example of a federal legislation is the **German Building Code ("BauGB", *Baugesetzbuch*)**, which includes regulations on urban planning law (development planning) as well as redevelopment measures, urban restructuring, valuation, and more.

The **federal states** are responsible for creating the foundations for development planning (known as state development plans or state spatial planning programmes) and issuing building regulations, which include building rules and regulations.

The **municipalities** are ultimately responsible for granting building permits and overseeing building projects. They, therefore, have the ability to regulate the urban development of their area through development plans (land use plan and development plan) and, within the state's guidelines, to enact their own building regulations in local statutes. The exact division of responsibilities and authority may be governed by the state building regulations and other state laws.

RESPONSIBILITIES IN TENANCY LAW

There are also regional differences in tenancy law, as demonstrated by the example of the rent cap (*Mietpreisbremse*). The **federal government**, through the **German Civil Code ("BGB", *Bürgerliches Gesetzbuch*)**, has enabled federal states to issue ordinances to regulate rent levels (Sec. 556d BGB). Some **federal states** have taken advantage of this by designating areas at the municipal level where these regulations apply. To implement the rent cap, **cities and municipalities** create a list of representative rents (*Mietspiegel*), which can be used to calculate the reference rent customary in the locality (*ortsübliche Vergleichsmiete*) as a benchmark for permissible rents.

FEDERAL, STATE, AND LOCAL AUTHORITIES DETERMINE THE LAWS IN THE GERMAN HOUSING MARKET



FEDERAL GOVERNMENT

Creates legal framework in BGB and BauGB



16 FEDERAL STATES

Can issue laws and ordinances within this framework



11,056 CITIES AND MUNICIPALITIES

Determine the respective implementation of the laws, e.g. in statutes (*Satzungen*)



CONSEQUENCES FOR INVESTORS

Investors looking to invest in German residential properties should consider several factors due to the federal structure of the country:

- Firstly, it is essential to familiarise oneself with the **basic provisions of the German Civil Code**, which outline the **rights and obligations of landlords and tenants**. Of particular relevance is the tenant's strong position in comparison to international standards, especially regarding protection against termination, regulation of rent increases and the allocation of ancillary costs (*Nebenkosten*).
- Next, property investors should have a fundamental understanding of the **regulations specific to each federal state**, which may include rules on rent caps, restrictions on conversions, and other related issues.
- **Local building regulations** determine how properties can be utilised and developed. These regulations vary not only between federal states but also from one municipality to another. Therefore, knowledge of local conditions and compliance with all relevant building codes are equally important.
- **Local development plans and municipal statutes** contain further crucial regulations, such as those concerning:



MONUMENT PROTECTION
(*DENKMALSCHUTZ*)



MUNICIPAL PRE-EMPTION RIGHTS
(*KOMMUNALE VORKAUFSRECHTE*)



NEIGHBOURHOOD PROTECTION
(*MILIEUSCHUTZ*)



BUILDABILITY OF LAND
(*BEBAUBARKEIT VON GRUNDSTÜCKEN*)



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THE FEDERAL STRUCTURE OF BUILDING AND TENANCY LAW RESULTS IN CERTAIN DIFFERENCES BETWEEN THE FEDERAL STATES AND EVEN BETWEEN INDIVIDUAL MUNICIPALITIES. THEREFORE, WHEN ASSESSING THE FEASIBILITY OF AN INVESTMENT IN RESIDENTIAL PROPERTY, PARTICULARLY IN CONNECTION WITH CONSTRUCTION ACTIVITIES, IT IS ADVISABLE TO SEEK LEGAL ADVICE.



03

SELECTED LEGAL INSTRUMENTS IN THE HOUSING MARKET

PARTICIPANTS IN THE GERMAN RENTAL MARKET ARE CONFRONTED WITH A MULTITUDE OF LEGAL REQUIREMENTS THAT AFFECT BOTH LEASE AGREEMENTS AND BUILDINGS. REGULATIONS CONCERNING RENT PRICES, AS WELL AS PROVISIONS FROM THE GERMAN BUILDING CODE REGARDING CERTAIN PRE-EMPTION RIGHTS AND RESTRICTIONS ON CONVERTING RENTAL HOUSING INTO OWNERSHIP, AIM TO PROTECT TENANTS FROM EXCESSIVE RENT BURDENS AND DISPLACEMENT FROM HIGH-DEMAND AREAS. ADDITIONALLY, THE GERMAN BUILDINGS ENERGY ACT ("GEG", GEBÄUDEENERGIEGESETZ) SEEKS TO MAKE THE RESIDENTIAL BUILDING SECTOR, ONE OF THE LARGEST EMITTERS OF CO₂, MORE SUSTAINABLE. TO THIS END, A REVISED VERSION CAME INTO EFFECT AT THE BEGINNING OF 2024, INTRODUCING NEW RULES ON HEATING SYSTEMS, AMONG OTHER THINGS.



Tenant protection plays a significant role in German tenancy law. Given the housing shortage and the associated political sensitivity, it is likely that relevant regulations will become even stricter in the near future. Further regulation to meet the EU climate targets can also be expected.

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03.1

REGULATIONS ON RENT

IN PRINCIPLE, PARTIES TO A LEASE AGREEMENT IN GERMANY ARE FREE TO NEGOTIATE THE AMOUNT OF THE RENT (“FREEDOM OF CONTRACT”, VERTRAGSFREIHEIT). HOWEVER, UNLIKE COMMERCIAL TENANCY LAW, THERE ARE STATUTORY PROVISIONS IN THE GERMAN CIVIL CODE THAT INTERVENE IN THE PARTIES’ FREEDOM TO DETERMINE TERMS, IN ORDER TO PROTECT TENANTS. THESE PROVISIONS COVER, AMONG OTHER THINGS, THE DETERMINATION OF THE PERMISSIBLE RENT LEVELS FOR NEW LEASES AND RENT INCREASES. SEVEN KEY REGULATORY AREAS CONCERNING THE SETTING, LIMITATION, AND POSSIBLE INCREASE OF RENTS ARE PRESENTED ON THE FOLLOWING PAGES.



#1 THE REFERENCE RENT CUSTOMARY IN THE LOCALITY

THE REFERENCE RENT CUSTOMARY IN THE LOCALITY FORMS THE BASIS FOR CALCULATING THE PERMISSIBLE RENT LEVEL FOR NEW LEASES AND RENT INCREASES AND MAY NOT BE ARBITRARILY EXCEEDED.

It is calculated from the typical rental prices agreed upon in the last six years within a municipality or a comparable municipality for residential properties of similar type, size, features, condition and location, including energy efficiency (Sec. 558 para. 2 BGB). The so-called list of representative rent (*Mietspiegel*) provides an overview of the reference rent customary in the locality and can be created for a municipal area, multiple municipalities, or parts of municipalities. **There are two types of list of representative rent**, which, along with any amendments, must be published, for example, on the websites of the respective city and property administrations.

LIST OF REPRESENTATIVE RENT (SEC. 558C BGB)

- Must be prepared and recognised by the authorities responsible under state law or jointly by representatives of the interests of landlords and tenants for municipalities with more than 50,000 inhabitants, or where there is need for a list of representative rent, and it can be created with a reasonable effort;
- Typically based on **general market observations and experiences** with rental prices in a particular region;
- Serves as an **informal and non-binding source of information** and is often used in areas where precise and comprehensive data for creating an expert list of representative rent are not available;
- Generally has **no legal binding effect**, meaning that in civil proceedings, according to case law, it only has indicative value and is to be assessed freely, like an expert opinion from one of the parties;
- Should be adjusted to reflect market developments every two years.

EXPERT LIST OF REPRESENTATIVE RENT (SEC. 558D BGB)

- Must be recognised by the authority under state law or by representatives of landlords and tenants;
- Must be created according to recognised **scientific principles** to be considered as an expert list;
- Is based on **extensive scientific surveys and data analyses** of rental prices in a specific region;
- Has a **legal binding effect** in the sense that the rent levels it establishes can be used as a reference in the event of legal disputes and rent increases;
- Should be adjusted to market developments every two years and renewed every four years.



#2 AREAS IN WHICH THE HOUSING MARKET IS UNDER PRESSURE

THE GERMAN CIVIL CODE AUTHORISES LAND GOVERNMENTS (*LANDESREGIERUNGEN*) TO DESIGNATE AREAS IN WHICH THE HOUSING MARKET IS UNDER PRESSURE (*GEBIETE MIT ANGESpanNTEN WOHNUNGSMÄRKTE*N) BY MEANS OF A STATUTORY INSTRUMENT FOR A PERIOD OF UP TO FIVE YEARS, IN WHICH SPECIAL REGULATIONS APPLY.

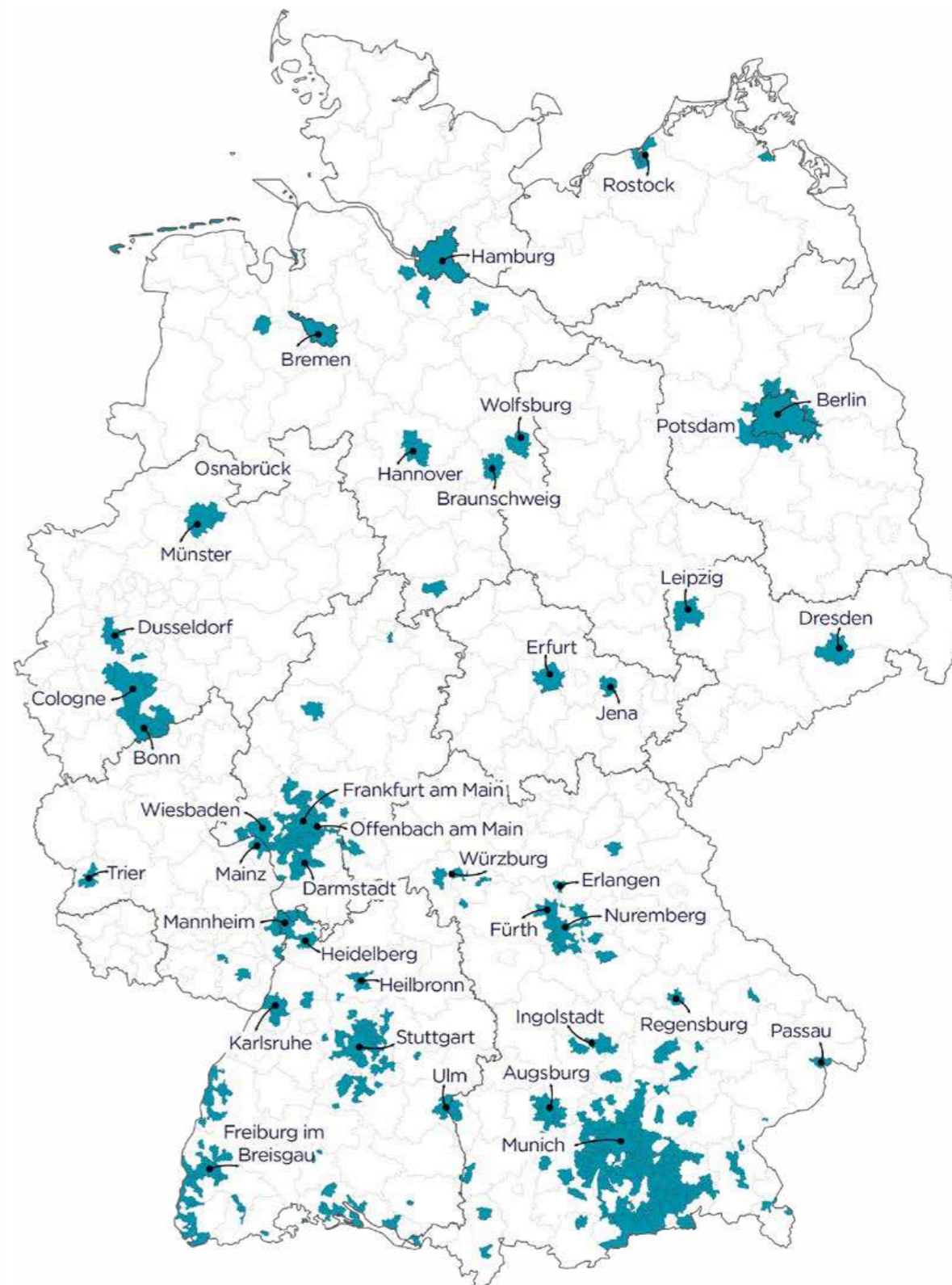
Such areas are defined when the adequate supply of rental housing to the population in a municipality or part of a municipality is particularly at risk under reasonable conditions, based on the following criteria (Sec. 556d para. 2 BGB):

- **RENT TRENDS** – There is a low vacancy rate with high demand
- **VACANCY RATES** – The residential population is growing without the necessary housing being created through new construction
- **POPULATION GROWTH** – The residential population is growing without the necessary housing being created through new construction
- **RENT BURDEN** – The average rent burden of households significantly exceeds the national average

The designation of these areas has implications for rent determination: The so-called **“rent cap”** (*Mietpreisbremse*) applies to new lease agreement, and a **stricter capping limit** (*Kappungsgrenze*) on rent increases is enforced. As of August 2024, all federal states except Saarland, Saxony-Anhalt, and Schleswig-Holstein have issued such legal regulation.



AREAS IN WHICH THE HOUSING MARKET IS UNDER PRESSURE: APPLICABLE AREAS OF RENT CONTROL ORDINANCES (“RENT CAP” AND STRICTER CAPPING LIMITS)



Source: Ordinances pursuant to Sec. 556d and Sec. 556 BGB of the federal states, Cushman & Wakefield Status: 1 January 2024

#3 THE “RENT CAP”

WITH THE INTRODUCTION OF THE TENANCY LAW AMENDMENT ACT ON 21 APRIL 2015, THE FREE PRICING OF NEW RESIDENTIAL LEASE AGREEMENTS IN GERMANY WAS SUBJECT TO VARIOUS RESTRICTIONS FOR THE FIRST TIME.

Since then, the rent for residential space (*Wohnraum*) at the beginning of a tenancy:

- may not exceed the reference rent customary in the locality by more than ten per cent,
- if the property is located in an area in which the housing market is under pressure (Sec. 556d BGB).

The legal foundations of the rent cap have been reformed and tightened multiple times since it first came into effect. This report reflects the legal status as of 1 January 2024.



EXEMPTIONS FROM THE SCOPE

Certain cases are also exempt from the rent cap, even in areas in which the housing market is under pressure:

- **NEW BUILDS**
if the residential space is used and rented for the first time after 1 October 2014.
- **TEMPORARILY RENTED RESIDENTIAL SPACE**
- **PARTIALLY OWNER-OCCUPIED PROPERTIES**
where the landlord partially occupies the property and has furnished it.
- **SOCIAL HOUSING**
- **STUDENT OR YOUTH HOSTELS (SEC. 549 BGB)**





LEGAL CONSEQUENCES OF VIOLATIONS

If the landlord violates the regulations of the rent cap, this does **not affect the validity of the lease agreement**. The lease agreement remains in place and the tenant can reclaim the excess rent paid over the last 2.5 years after submitting a timely complaint. However, if the lease agreement has existed for longer than 2.5 years, the tenant is only **entitled to a refund** from the time of the complaint onwards. For the remaining term of the lease agreement, the tenant owes the legally permissible rent (Sec. 556g BGB).

If the landlord takes advantage of the tenant's predicament or inexperience and demands rent that exceeds the reference rent customary in the locality by 50 per cent, this constitutes a criminal offence. In this case, it is considered **"rack-renting"**.



EXCEPTIONS TO THE DETERMINATION OF THE PERMISSIBLE RENT

- **PREVIOUS RENT EXCEEDED THE LEGALLY PERMISSIBLE RENT**

If the rent last owed by the previous tenant (previous rent) was higher than the legally permissible rent, a new rent may be agreed up to the level of the previous rent. Rent increases agreed upon within the last year before the previous lease agreement ended, as well as rent reductions, are disregarded (Sec. 556e para. 1 BGB).

- **MODERNISATION MEASURES (MODERNISIERUNGSMASSNAHMEN)**

For the modernisations carried out within the three years prior to the start of the lease agreement, the reference rent customary in the locality may be exceeded by the amount resulting from the legally permissible rent increase (e.g. an increase in the annual net rent by eight per cent). However, the reference rent customary in the locality must be determined without taking the modernisation into account, meaning it should be (hypothetically) compared to a non-modernised property (Sec. 556e para. 2 BGB).



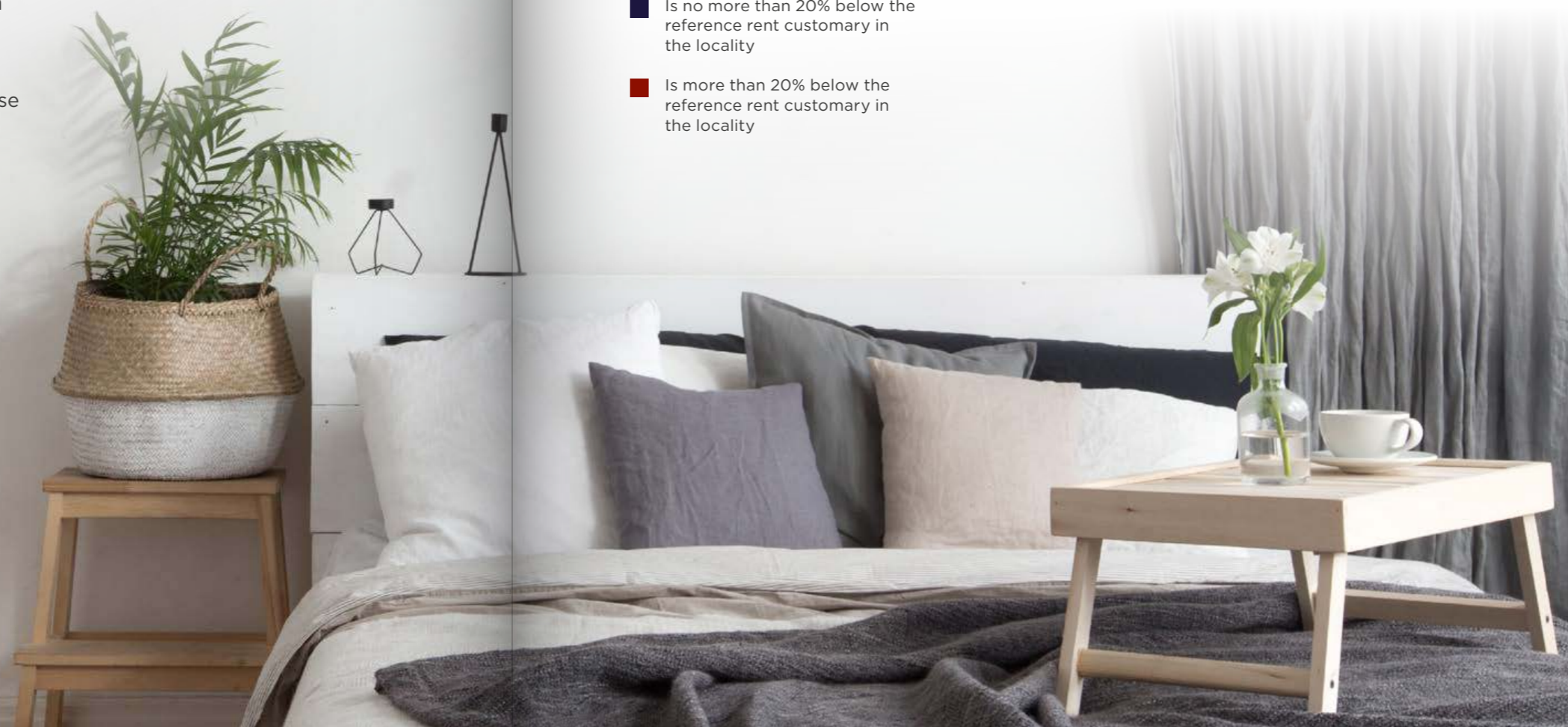
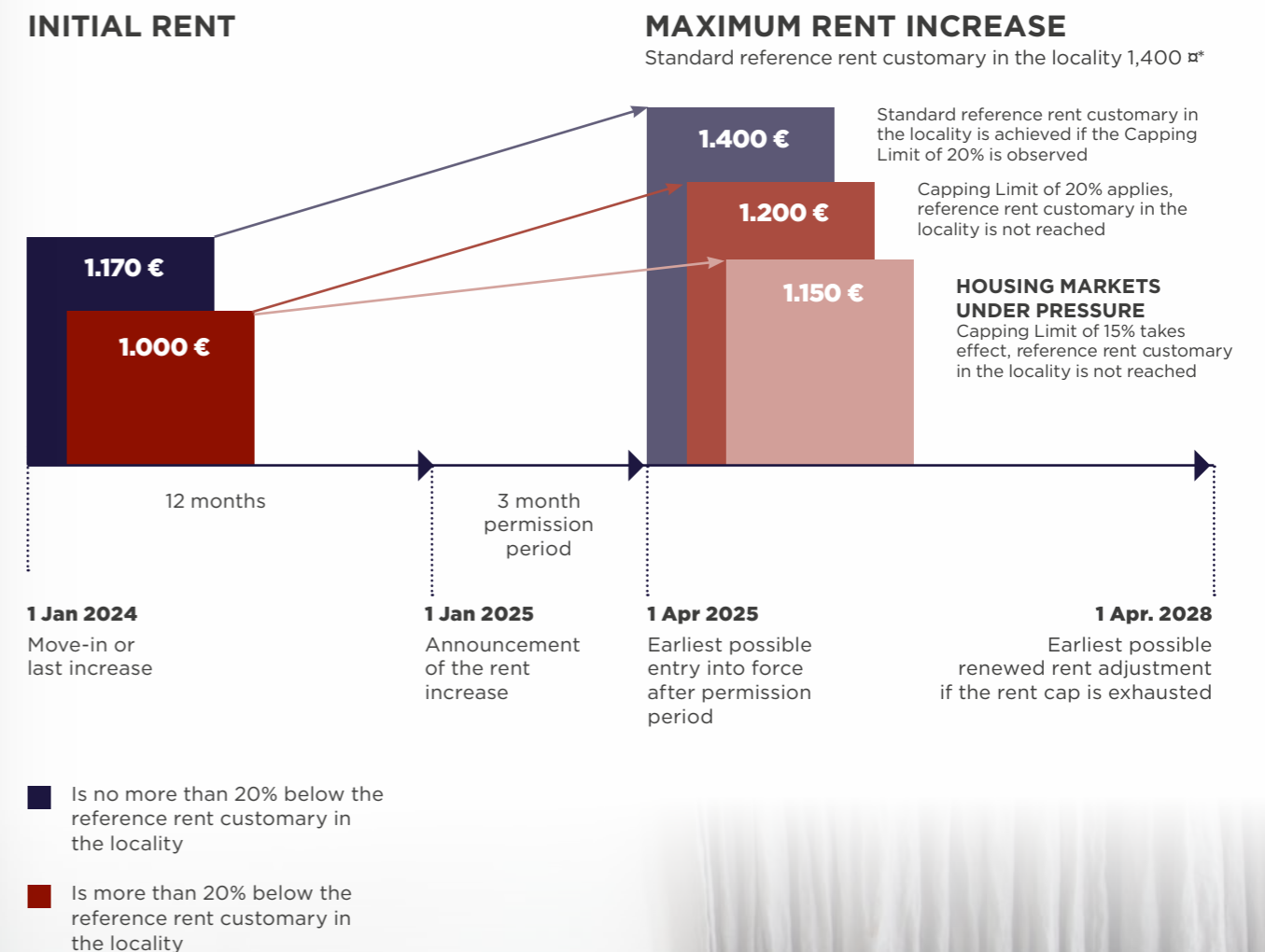
#4 RENT INCREASE UP TO THE REFERENCE RENT CUSTOMARY IN THE LOCALITY (SEC. 558 BGB)

DURING THE RENTAL PERIOD, THE POSSIBILITIES FOR ADJUSTING THE RENT IN RESIDENTIAL LEASE AGREEMENTS ARE ALSO LEGALLY RESTRICTED. HOWEVER, EVEN IF THE LEASE AGREEMENT DOES NOT INCLUDE SPECIFIC PROVISIONS ON THIS, THE LANDLORD HAS THE UNILATERAL RIGHT TO INCREASE THE RENT UP TO THE REFERENCE RENT CUSTOMARY IN THE LOCALITY, PROVIDED THE FOLLOWING CONDITIONS ARE MET:

- The rent has remained **unchanged for 15 months** at the time the increase is to take effect.
- **At least one year** has passed since the last rent increase.
- In addition, the rent may **not increase by more than 20 per cent within three years** (so-called “Capping Limit”).
- In **areas in which the housing market is under pressure**, the Capping Limit is lower – here, **the increase within three years may not exceed 15 per cent**.

If the rent at the time of move-in or since the last increase is significantly below the reference rent customary in the locality, the Capping Limit may result in the rent remaining below this level even after the increase. This is intended to protect tenants from excessive hikes. Increases due to modernisation measures or changes in operating costs are not taken into account.

EXAMPLE CALCULATION: RENT INCREASE UP TO THE REFERENCE RENT CUSTOMARY IN THE LOCALITY





#5

STEPPED RENT (SEC. 557A BGB)

WITH A SO-CALLED STEPPED LEASE AGREEMENT, FUTURE CHANGES, IN PARTICULAR RENT INCREASES, CAN BE AGREED UPON IN WRITING WITHIN THE LEASE AGREEMENT AT THE TIME OF SIGNING.

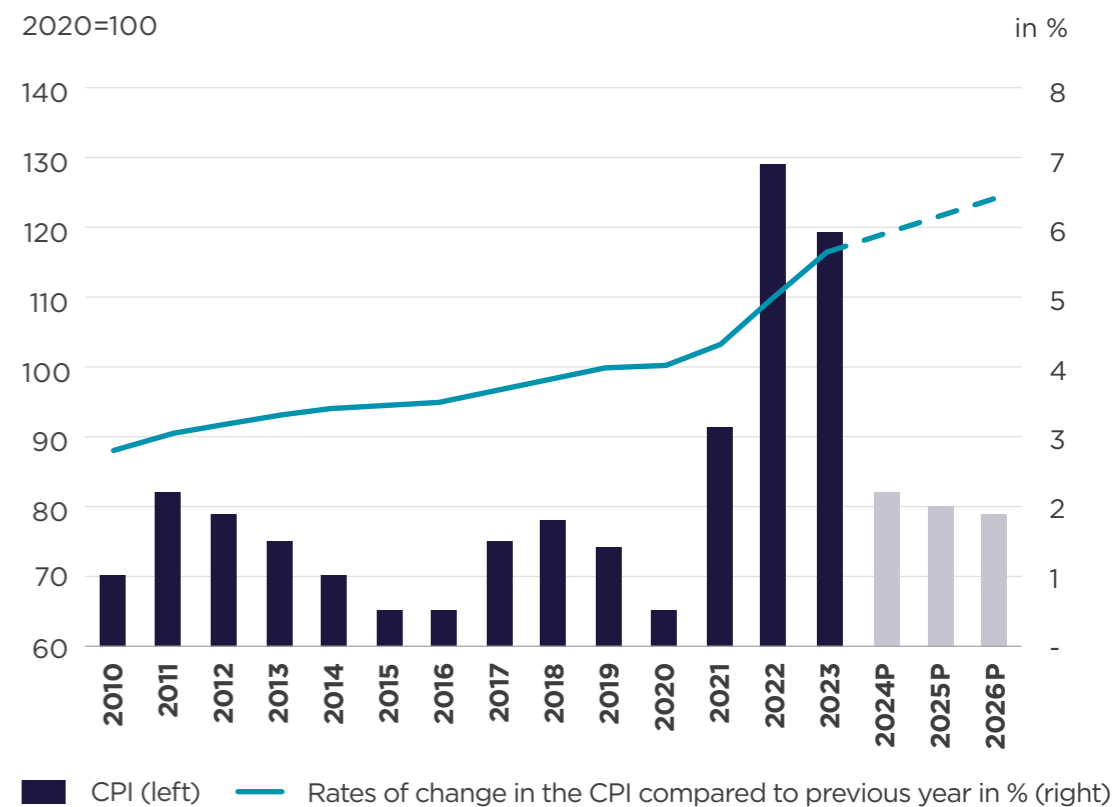
Each rent amount or increase must be specified as a monetary amount. The regulations of the rent cap apply to each stepped rent (*Staffelmiete*), where applicable. The rent must remain unchanged for at least one year. During the term of a stepped lease agreement, an increase up to the reference rent customary in the locality and rent increase following modernisation measures are excluded.

#6 INDEXED RENT (SEC. 557B BGB)

IF A PERMISSIBLE INITIAL RENT IS AGREED UPON, THE PARTIES TO THE LEASE AGREEMENT CAN AGREE IN WRITING THAT THE RENT WILL BE ADJUSTED ACCORDING TO THE CONSUMER PRICE INDEX ("CPI", *VERBRAUCHERPREISINDEX*) FOR THE COST OF LIVING OF ALL PRIVATE HOUSEHOLDS IN GERMANY, AS DETERMINED BY THE FEDERAL STATISTICAL OFFICE (*STATISTISCHES BUNDESAMT*).

If the price index changes, an adjustment of the rent must be asserted through a written notice. This notice must specify the change in the price index and the corresponding rent or the desired increase as precise figures. The **rent must remain unchanged for at least one year** while the index-linked rent is in effect. A retroactive adjustment or increase is not possible.

CONSUMER PRICE INDEX (CPI) GERMANY: DEVELOPMENT 2010-2023 AND FORECAST



Source: Federal Statistical Office, Moody's Prognose
Status: 1 January 2024



THE LANDLORD MAY INCREASE THE ANNUAL RENT BY EIGHT PER CENT OF THE COSTS INCURRED FOR THE PROPERTY AFTER CARRYING OUT CERTAIN LEGALLY DEFINED MODERNISATION MEASURES (SEC. 555B BGB).

However, the monthly rent may not be increased by more than 3.00 euros per square metre of residential space within a period of six years – or by more than 2.00 euros per square metre if the monthly rent is less than 7.00 euros per square metre. Increases up to the reference rent customary in the locality are not considered here.

If the modernisation measure involves the **installation of a new heating system**, the monthly rent may not be increased by more than 0.50 euros per square metre of residential space within six years (see page 52). ✎

The increase may be excluded in individual cases if it would cause an **unreasonable hardship for the tenant**. Additionally, the tenant has a **special right of termination** if the landlord demands a rent increase due to a modernisation measure.

#7

**AFTER MODERNISATION
MEASURES (SEC. 559 BGB)**

EXCURSUS

PROTECTION AGAINST TERMINATION

RESIDENTIAL LEASE AGREEMENTS IN GERMANY ARE USUALLY CONCLUDED FOR AN INDEFINITE PERIOD. THE CONCLUSION OF A FIXED-TERM LEASE AGREEMENT IS ONLY POSSIBLE IF THERE IS A LEGALLY PERMISSIBLE REASON ("REASON FOR THE FIXED TERM") (SEC. 575 BGB). THE TENANT MUST BE INFORMED OF THIS REASON WHEN THE TENANCY AGREEMENT IS CONCLUDED.

The law recognises the following as **permissible reasons for a fixed term**:

- the intention to use the premises for the landlord's own use or for the use of family members ("personal use"),
- to carry out extensive modernisation work,
- or to provide the premises as accommodation for another person in the context of employment.

In both cases, the tenant enjoys **extensive protection against termination**. The landlord can only give notice of termination if they have a legitimate interest in ending the lease agreement (Sec. 573 BGB). The law specifies what constitutes a legitimate interest (for example, serious breaches of duty by the tenant, personal use). Termination for the purpose of increasing the rent is expressly excluded. Apart from this, the landlord may only terminate the lease agreement for good cause.

FURNISHING SURCHARGE (MÖBLIERUNGSZUSCHLAG) AND MICRO APARTMENTS

WHEN A RENTAL PROPERTY IS RENTED FURNISHED, THE LANDLORD MAY CHARGE A SURCHARGE FOR THE USE OF THE FURNISHINGS. THE AMOUNT OF THE SURCHARGE IS USUALLY DETERMINED BASED ON A CERTAIN PERCENTAGE OF THE CURRENT MARKET VALUE OF THE RENTED FURNITURE. AS THIS SURCHARGE IS ADDED TO THE NET COLD RENT, THE REFERENCE RENT CUSTOMARY IN THE LOCALITY MAY BE EXCEEDED.

In practice, this is (still) seen as a way of circumventing the local comparative rent, particularly in conjunction with short-term rentals of property that are only let for temporary use (see page 58). ✨ New legal regulations in Sec. 556d BGB are currently being discussed to make this circumvention more difficult (see page 54). ✨



03.2

SPECIAL REGULATIONS OF THE GERMAN BUILDING CODE

IN ADDITION TO THE PROVISIONS OF THE GERMAN CIVIL CODE, WHICH GOVERN THE LEGAL RELATIONSHIP BETWEEN THE PARTIES TO A LEASE AGREEMENT, THE GERMAN BUILDING CODE ALSO CONTAINS PUBLIC LAW REGULATIONS AIMED AT PROTECTING EXISTING HOUSING AND ADDRESSING HOUSING SHORTAGES.



#1 PRESERVATION AREAS AND PRESERVATION STATUTE

A MUNICIPALITY CAN DEFINE SO-CALLED PRESERVATION AREAS (*ERHALTUNGSGEBIETE*) IN WHICH THE DEMOLITION, ALTERATION, CHANGE OF USE AND, IN SOME CASES, THE CONSTRUCTION OF BUILDINGS REQUIRE PERMISSION IF THESE AREAS ARE TO BE PRESERVED FOR REASONS SUCH AS (SEC. 172 BAUGB):



URBAN CHARACTER

Distinctive architectural style, historical elements, or cultural features



URBAN DESIGN

Layout and structure of the urban area, its public spaces



COMPOSITION OF THE RESIDENT POPULATION

These areas can be designated in a development plan or through a separate statute ("**Preservation Statutes**", *Erhaltungssatzung*). If the area is to be preserved due to the composition of the residential population or the residential population is to be protected from even a potential risk of displacement, this is referred to as "**Milieu Protection**" (*Milieuschutz*) (Sec. 172 para. 4 BauGB).

The German Building Code specifies when a permission must be granted. The modernisation of a property to contemporary standards in a milieu protection area must be approved, considering the minimum requirements of building regulations, provided that the standard of fittings does not exceed that of a comparable average flat. Courts have, in some cases, deemed the installation of a loggia, a guest bathroom, a video intercom system, or a lift as "**Luxury Modernisations**" and therefore inadmissible.

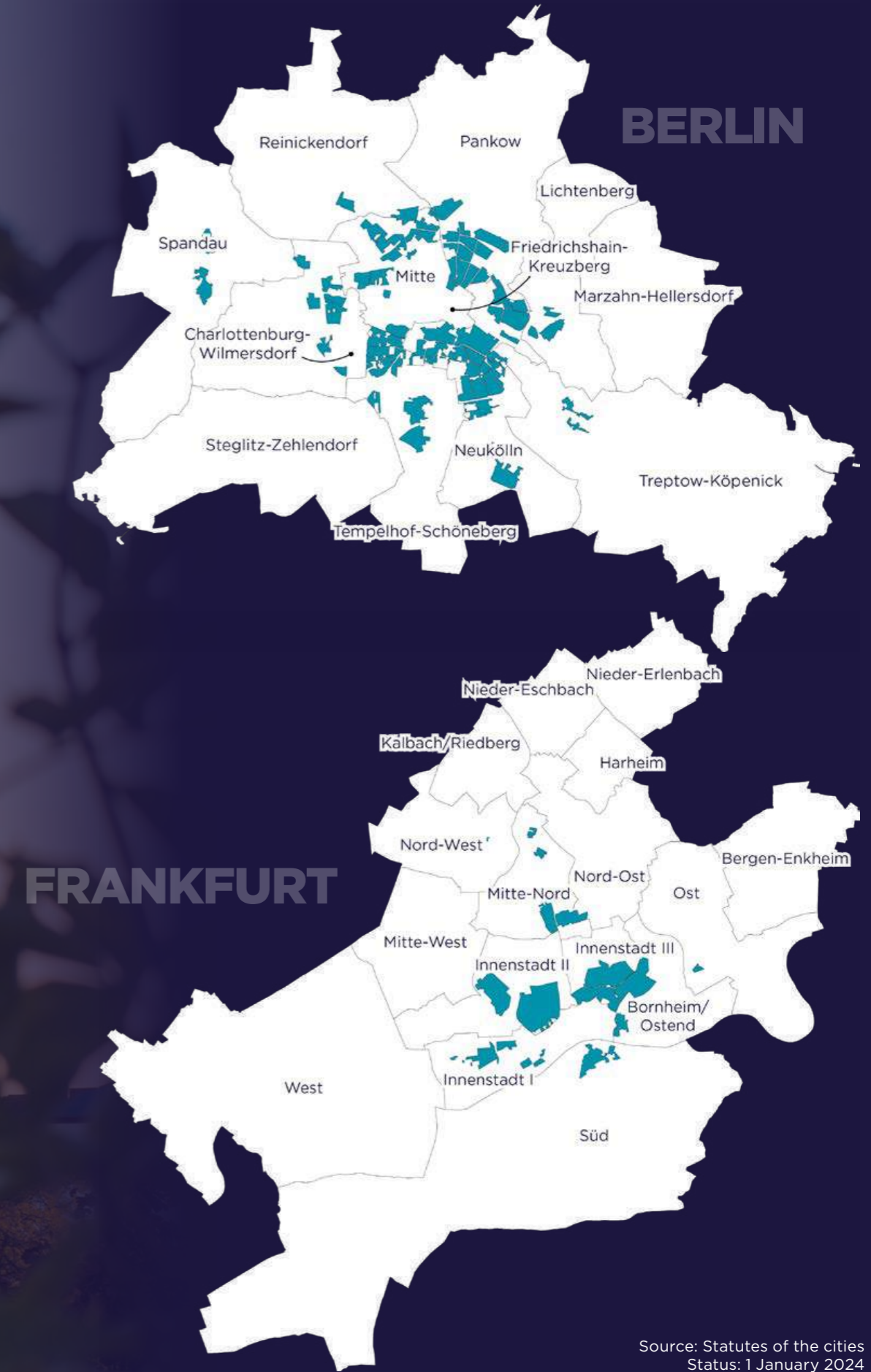


IF THE REGULATIONS OF THE PRESERVATION STATUTES ARE DISREGARDED, THE BUILDING AUTHORITY CAN STOP THE WORK OR ORDER THE REMOVAL OF THE STRUCTURE. ADDITIONALLY, A REGULATORY OFFENCE MAY BE COMMITTED, WHICH CAN BE PENALISED WITH A FINE.



AREAS COVERED BY SOCIAL PRESERVATION STATUTES (“MILIEU PROTECTION AREAS”) IN THE TOP-7 CITIES

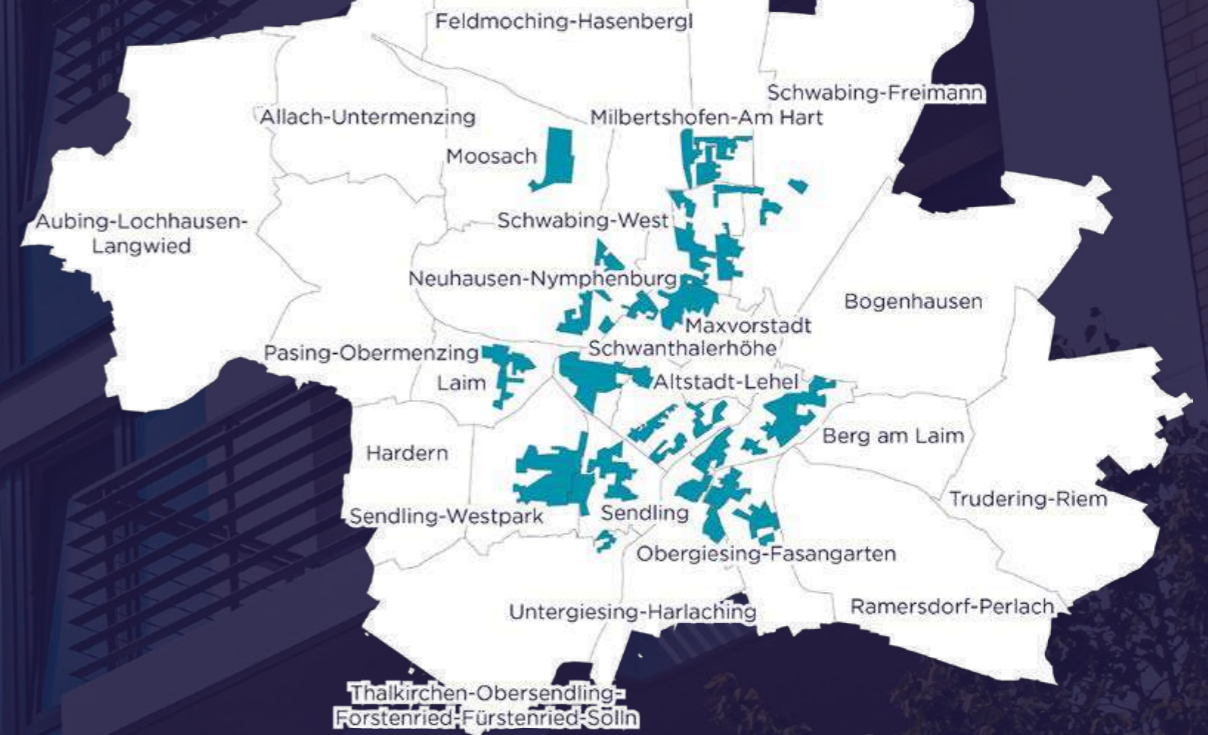
Milieu Protection Areas are typically designated in desirable residential areas where housing prices are rising. In six of Germany’s top-7 cities, such social Preservation Statutes apply to certain areas – only Düsseldorf has not established any.



Source: Statutes of the cities
Status: 1 January 2024



MUNICH



HAMBURG



STUTTGART



Source: Statutes of the cities
Status: 1 January 2024

#2

PERMISSION REQUIREMENTS FOR THE ESTABLISHMENT OF FLAT AND PARTIAL OWNERSHIP

IN MILIEU PROTECTION AREAS, A LEGAL ORDINANCE CAN STIPULATE THAT THE ESTABLISHMENT OF FLATS OR PARTIAL OWNERSHIP (WOHNUNGS- ODER TEILEIGENTUM) IS SUBJECT TO A PERMISSION (SEC. 172 PARA. SENTENCE 4 BAUGB). IT IS QUITE COMMON FOR THE CONVERSION OF RENTAL FLATS INTO OWNER-OCCUPIED FLATS TO BE PROHIBITED.

Even if the building is not located in a Milieu Protection Area, approval may still be required for the establishment or division of flat ownership or partial ownership. This is the case if the residential building:

- is located in **an area in which the housing market is under pressure**, and
- has **a certain minimum number of flats**.

In such instances, the establishment or division of residential property or partial ownership also requires a special permission (Sec. 250 BauGB). The areas concerned are to be designated by the state governments through a justified legal ordinance (Sec. 201a BauGB).

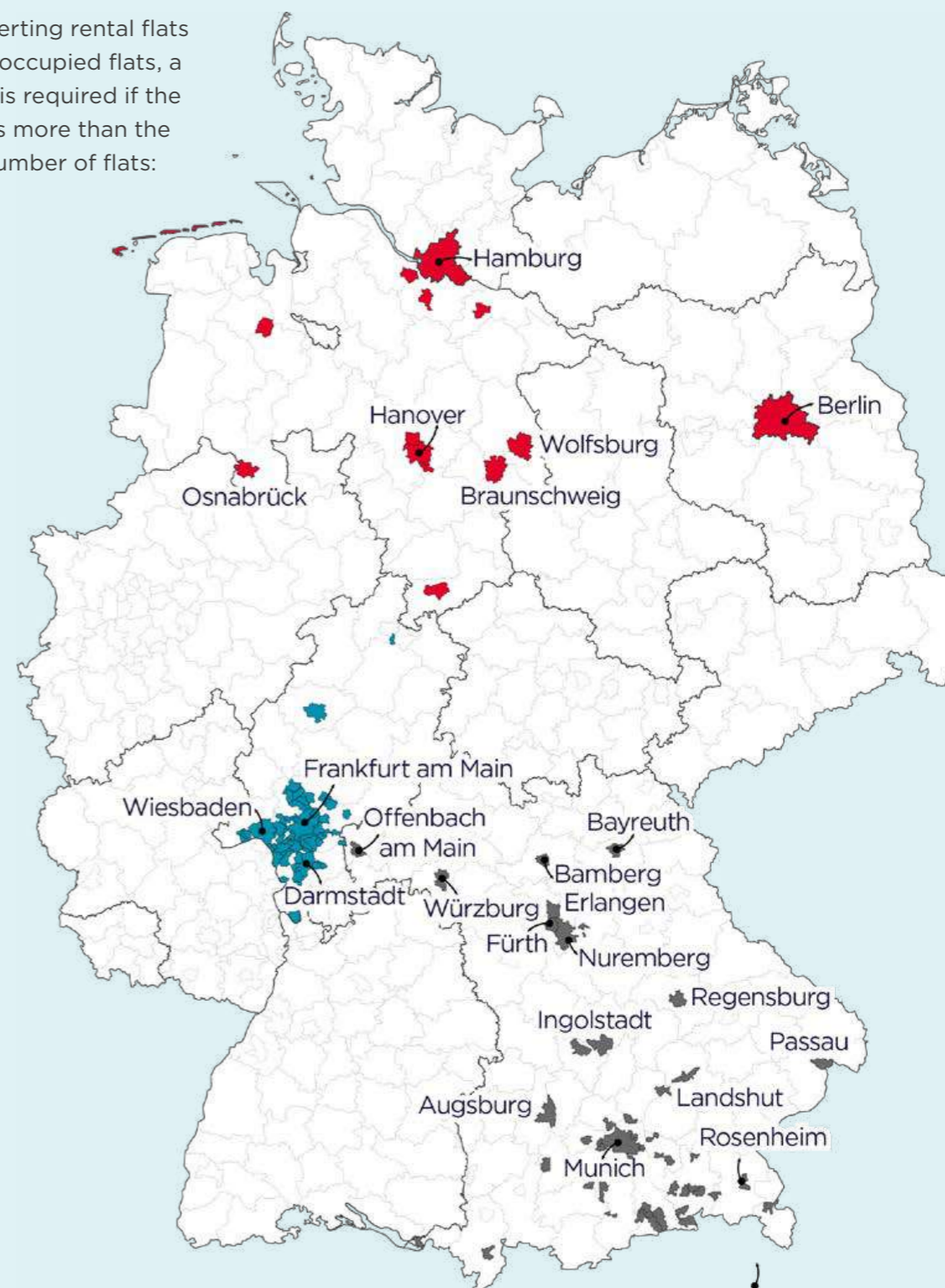
If the residential building is in such an area, the law may prescribe different permission requirements. Permission for conversion must be granted if refusal, even considering the public interest, is no longer reasonable.

In principle, authorisation may only be refused if this is necessary for the adequate supply of rental housing to the population. The authority must specifically assess this in light of the principle of proportionality. It is also possible to impose requirements (Auflagen).

AREAS IN WHICH THE HOUSING MARKET IS UNDER PRESSURE: SCOPE OF CONVERSION ORDINANCES UNDER SEC. 250 BAUGB

When converting rental flats into owner-occupied flats, a permission is required if the building has more than the following number of flats:

- 5 flats
- 6 flats
- 10 flats



Source: Ordinances according to Sec. 250 BauGB of the federal states, Cushman & Wakefield Status: 1 January 2024



#3 THE MUNICIPALITY'S STATUTORY PRE-EMPTION RIGHT

STATUTORY PRE-EMPTION RIGHTS (*GESETZLICHE VORKAUFSRECHTE*) ALLOW CERTAIN INDIVIDUALS OR INSTITUTIONS TO PURCHASE A PROPERTY OR REAL ESTATE BEFORE IT IS SOLD TO ANOTHER BUYER. THESE RIGHTS ARE GOVERNED BY VARIOUS FEDERAL AND STATE LAWS AND CAN VARY REGIONALLY.

For example, tenants have a statutory pre-emption right if, after the tenant has occupied the flat, the flat is converted into condominium ownership and offered for sale to a third party ("Tenant's Pre-Emption Right", Sec. 577a BGB). Monument protection authorities or lessees of agricultural land can also be granted such rights.

The Statutory Pre-Emption Right of municipalities ("Municipal Pre-Emption Right") is regulated in the BauGB. There are two types.

GENERAL RIGHT OF PRE-EMPTION

Municipalities are entitled to a general right of pre-emption (Sec. 24 BauGB) if the property offered for sale is located, for example, in one of the following areas:

- Within the scope of a land use plan (*Flächennutzungsplan*), provided it involves undeveloped land in an outer area designated in the land use plan for residential development or residential areas
- In an area that, according to the development plan (*Bebauungsplan*), can primarily be built with residential buildings, and the property is still undeveloped
- Within the scope of a Preservation Statute
- In a formally designated redevelopment area or urban development area

The Municipality's Pre-Emption Right does not apply to the purchase of flats divided in accordance with the German Act on the Ownership of Apartments and the Permanent Residential Right ("WEG", *Wohnungseigentumsgesetz*), or heritable building rights. It may only be exercised if it is justified by the public interest, such as the creation of housing.

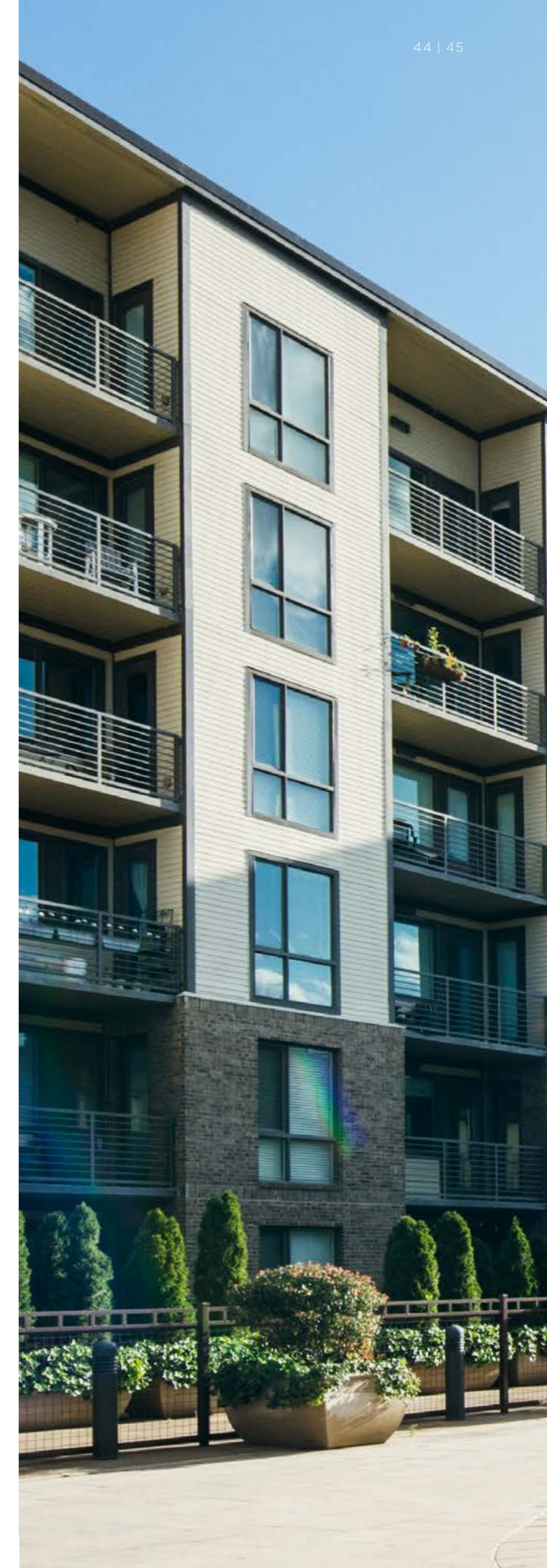
SPECIFIC RIGHT OF PRE-EMPTION

In addition to the general rights of first refusal, municipalities have also been granted special rights of first refusal (Sec. 25 BauGB) since enactment of the German Building Land Mobilisation Act of 14 June 2021. These rights are intended to facilitate the implementation of an existing development plan, urban development, or housing construction.

A municipality can secure a pre-emption right through a statute within the scope of a development plan for an undeveloped or vacant plot of land if these plots:

- can predominantly be developed with residential buildings, and
- are located in an area with a tight housing market.

A property is also considered undeveloped if it is only enclosed or built upon for an evidently temporary purpose.



THE BUYER'S RIGHT OF FORESTALLING THE PRE-EMPTION RIGHT

The buyer can, under certain conditions, prevent the exercise of a pre-emption right ("Right of Forestalling", *Abwendungsrecht*) by committing, within the exercise period of the pre-emption right, to use the property in accordance with the building regulations and/or the urban development goals (Sec. 27 BauGB).

This obligation is typically formalised through avoidance agreements, which are made between the buyer and the municipality. Certain conditions can be imposed on the buyer in these agreements, but these must be reasonable and proportionate in relation to the value of the service and consideration. Within the scope of Preservation Statutes, the buyer's obligation might, for example, include refraining from actions that are contrary to the objectives and purposes of the statute (such as a prohibition on converting rental flats into owner-occupied flats).



UNDER CERTAIN CONDITIONS, THE MUNICIPALITY CAN ALSO IMPOSE RENTAL PRICE REQUIREMENTS ON THE BUYER FOR NEW LETTINGS. AS A RESULT, THE ORIGINAL INVESTMENT SCENARIO FOR THE BUYER IS OFTEN NO LONGER FEASIBLE.

PROTECTION AGAINST PRE-EMPTION RIGHTS IN PURCHASE AGREEMENTS

Statutory pre-emption rights must be taken into account when processing a property purchase agreement. This is due to the land registry's blocking effect of the municipal pre-emption right. As long as the land registry office has not been provided with a corresponding waiver certificate from the municipality ("**Negative Certificate**"), no transfer of ownership to the buyer may take place.



IN PROPERTY PURCHASE AGREEMENTS, IT IS TYPICALLY STIPULATED THAT THE PAYMENT OF THE PURCHASE PRICE IS ONLY DUE ONCE IT IS CONFIRMED THAT NO PRE-EMPTION RIGHT IS BEING EXERCISED. FURTHERMORE, IN THE EVENT THAT A PRE-EMPTION RIGHT IS EXERCISED, THE SELLER MAY WITHDRAW FROM THE PURCHASE AGREEMENT WITH THE BUYER.



03.3

IMPLICATIONS OF THE GERMAN BUILDINGS ENERGY ACT (GEG)

THE GERMAN BUILDINGS ENERGY ACT ("GEG", *GEBÄUDEENERGIEGESETZ*) REGULATES THE ENERGY PERFORMANCE REQUIREMENTS FOR NEW AND EXISTING BUILDINGS. THE ACT WAS REVISED IN 2023 FOLLOWING AN EXTENSIVE INTERNAL POLITICAL DISCUSSION. THE AMENDMENTS CAME INTO EFFECT ON 1 JANUARY 2024.



THE REVISED BUILDING ENERGY ACT INTRODUCES NEW REGULATIONS FOR PROPERTY OWNERS AND LANDLORDS

THE AMENDED ACT INTRODUCES ADDITIONAL REQUIREMENTS FOR REDUCING GREENHOUSE GAS EMISSIONS FROM HEATING SYSTEMS. THE AIM IS TO GRADUALLY SWITCH FROM FOSSIL FUELS TO RENEWABLE ENERGY SOURCES. A DISTINCTION IS MADE AS TO WHETHER IT IS A NEW BUILDING OR AN EXISTING ONE, AND THE LOCATION OF THE BUILDING (FOR EXAMPLE, A NEWLY DEVELOPED AREA).



HEATING SYSTEMS THAT ARE NEWLY INSTALLED OR SET UP (SEC. 71 GEG)

For **new construction projects** with building application submitted after 1 January 2024, only heating systems that are operated with at least 65 per cent renewable energy may be installed or set up.

For **existing buildings and new constructions in infill developments**, longer transition periods apply. The requirements for heating systems that are newly installed, set up, or replaced must be implemented by the following deadlines at the latest (Sec. 71 para. 8 GEG):

30 June 2026

Large cities with >100,000 inhabitants

30 June 2028

smaller cities with <100,000 inhabitants

If a decision is made in a municipality to designate an area for the new or expanded development of a district heating network or as a hydrogen network expansion area based on a heat plan before mid-2026 or mid-2028, the installation of heating systems with 65 per cent renewable energy will become mandatory at that point.

In general, building owners are free to choose which type of heating system they want to use to fulfil the legal requirements.



EXISTING GAS OR OIL HEATING SYSTEMS

Gas or oil heating systems that have already been installed and in operation can continue to be used as long as they are not more than 30 years old or do not have other specific characteristics (e.g. systems with less than 4 kW or more than 400 kW).

However, if the building has at least six flats or other units, the heating systems must be inspected by the building owners and **optimised if necessary** (Secs. 60a ff GEG).

If an existing heating system is irreparably damaged (“**heating failure**”, *Heizungshavarie*), it must be replaced. However, special regulations provisions apply in cases of hardship.

From 1 January 2045, there will be a general ban on the operation of boilers powered by fossil fuels (Sec. 72 para. 4 GEG).

IMPACT OF THE GEG ON LEASE AGREEMENTS

IF THE LANDLORD INTENDS TO MODERNISE THE RENTAL PROPERTY IN LINE WITH THE REQUIREMENTS OF THE GERMAN BUILDINGS ENERGY ACT, THEY MAY PASS ON A PORTION OF THE ASSOCIATED COSTS TO THE TENANT.

The costs of installing a heat pump can be fully considered in a **rent increase due to modernisation** if it can be proven that the annual performance factor of the heat pump exceeds 2.5 or if other specific conditions are met. If proof cannot be provided, the landlord can only account for 50 per cent of the costs in the rent increase (Sec. 71o GEG).

A rent increase following the installation or construction of a heating system is also limited. Any subsidies received must be deducted from the costs that can be passed on, and costs that would have been necessary for maintenance must be reduced by a flat rate of 15 per cent. Additionally, the monthly rent cannot be increased by more than 0.50 euros per square metre of living space within six years (Sec. 559e BGB).

Tenants generally do not have the right to demand the landlord for compliance with the requirements of the GEG or to request the replacement of a heating system. However, fines can be imposed on building owners for violations of the German Buildings Energy Act (Sec. 108 GEG).



03.4

PERSPECTIVES: WHAT SHOULD INVESTORS AND LANDLORDS BE PREPARED FOR?

LEGAL REQUIREMENTS ARE NOT STATIC AND ARE CONTINUALLY BEING UPDATED. IN THE COMING YEARS, ADDITIONAL REGULATIONS ARE LIKELY TO EMERGE IN RESPONSE TO HIGH DEMAND FOR HOUSING AND THE ASSOCIATED RISE IN RENTS, AIMED AT FURTHER STRENGTHENING TENANTS' RIGHTS.



1

INCREASED ENFORCEMENT OF THE RENT CAP

In recent years, more and more cities have switched from a simple list of representative rents to an expert list of representative rents. For example, Berlin published an expert list of representative rents this year, replacing the previous simple one. Unlike the simple list of representative rents, the courts assume that the expert list of representative rents represents the reference rent customary in the locality, making it easier for tenants to enforce rent controls in legal disputes. In addition, more cities are now publishing lists of representative rents, even where rent caps do not apply. Saarbrücken and Magdeburg, for example, are currently working on creating one.

2

INDIRECT TIGHTENING OF CAPPING LIMIT

In the coming years, a change in the methodology for creating the list of representative rents, as described in the federal government's coalition agreement, could be implemented. This would mean that, instead of only considering the last six years, the calculation of the comparative rent would include the last seven years. The period was already extended from four to six years in 2020. Due to the trend towards rising rents, this forthcoming change could lead to a lower increase in the the reference rent customary in the locality in future. **Consequently, permissible rents could be lower in the coming years than previously anticipated.**



3

TIGHTENING OF THE CAPPING LIMIT

The Federal Government's coalition agreement also includes a proposal that in areas with a rent capping limit regulation (*Kappungsgrenzenverordnung*), rent increases within three years should be limited to only 11 per cent (down from the current 15 per cent). The scope of the rent cap is almost identical to that of rent controls ([see map](#)) with one exception. In all other regions, the rent cap is to remain at 20 per cent. **As a result of this tightening, the permissible rent in existing contracts would rise less sharply in the coming years than previously expected.**

4

POSSIBLE RESTRICTION ON TEMPORARY LETTING

Flats are often rented out for temporary use, in which case tenants cannot invoke rent cap measures. There is currently no legal definition of when a rental is considered temporary versus permanent. However, a draft bill from the Federal Council proposes limiting this period to six months. **This would mean that rent caps would also apply to many short-term lease agreements that are currently exempt. The legislative process in this regard is still open.**

5

POTENTIAL REGULATION OF THE FURNISHING SURCHARGE

In some lease agreements, it is common to provide furniture and charge a furnishing surcharge. The exact amount of this surcharge does not need to be itemised in the lease agreement, leaving the base rent unspecified. Without knowing the base rent, it is impossible to determine whether rent cap measures are being observed. The aforementioned draft bill from the Federal Council would introduce clear regulations for this, ensuring that **rent caps could be unambiguously applied to contracts that include a furnishing surcharge**. Since this proposal, along with the restriction on temporary letting, has not yet been submitted to the Bundestag, there is currently no legal regulation on this issue.

6

INCREASED REQUIREMENTS FOR EQUIPPING BUILDINGS WITH CHARGING INFRASTRUCTURE

The obligations to equip buildings with charging infrastructure for electric vehicles are being significantly extended for both existing and new buildings. This is being implemented through an amendment to the EU Energy Performance of Buildings Directive (“EPBD”, *EU-Gebäudeeffizienzrichtlinie*), which came into force on 28 May 2024 and must be transposed into national law by 28 May 2026. The new regulations include stricter requirements for the installation of charging points and wiring infrastructure, pre-wiring of parking spaces, and the provision of bicycle parking spaces. These expanded duties represent a considerable financial burden for developers and property owners and are subject to fines.



7

THE DIVISION OF CO₂ COSTS IN LEASE AGREEMENTS

The division of carbon dioxide costs between landlords and tenants has been regulated in Germany by the German Carbon Dioxide Apportionment Act (“**CO₂KostAufG**”) since early 2023. The division of CO₂ costs in residential buildings follows a tiered model that takes into account the energy efficiency of the building as well as the ability of the landlord and tenant to influence the building’s carbon dioxide emissions. The lower the energy efficiency of the building, the higher the share of costs borne by the landlord. This is intended to encourage landlords to carry out energy-efficient renovations and at the same time motivate tenants to use energy sparingly.

8

FURTHER LEGAL CHANGES

The legal framework for renting residential property in Germany is being actively discussed at all legislative levels and holds significant political relevance. Given the complexity of the issue, landlords should closely monitor current legislative developments to stay informed about future rights and obligations.

The scenarios mentioned could be followed by further legislation. For example, the “**Berlin Rent Cap**” (*Berliner Mietendeckel*), which was declared invalid, could lead to further regulation of rents in Berlin in a constitutionally compliant version.

However, the most influential legislative authority for the housing market lies at federal level, where there are very different views on regulation. A look at the motions in Parliament reveals the potential legal risks. Legal changes are also expected at municipal level, particularly through the designation of new social preservation areas (“**Milieu Protection**”).

04

MARKET TRENDS AND INVESTMENT ACTIVITY

THE GERMAN RESIDENTIAL INVESTMENT MARKET REMAINS HIGHLY SOUGHT AFTER DESPITE ALL REGULATORY CONSTRAINTS AND CONTINUES TO BE A GROWTH MARKET IN GERMANY AND EUROPE. ALTHOUGH TRANSACTION ACTIVITY HAS TEMPORARILY DECREASED, DEMAND FOR RESIDENTIAL INVESTMENTS REMAINS STRONG. INVESTORS WILL CONTINUE TO DIVERSIFY THEIR PORTFOLIOS AND INCREASINGLY FOCUS ON RESIDENTIAL PROPERTY. THERE IS ALSO GROWING DEMAND FOR LESS REGULATED MICRO APARTMENTS.



Regulation requires close attention from players in the housing market – however, close monitoring of legal conditions in combination with the needs of the demand side and market developments, also presents interesting opportunities.

JAN-BASTIAN KNOD

Head of Residential Investment Germany
Head of Healthcare Advisory
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HOUSING SHORTAGE, CHANGING HOUSING NEEDS, AND REGULATION CREATE NEW RENTAL CONCEPTS

THE RENTAL HOUSING MARKET IS THE MOST HEAVILY REGULATED SECTOR IN THE GERMAN HOUSING MARKET. THIS ALSO PRESENTS CHALLENGES FOR MARKET PLAYERS, PARTICULARLY BECAUSE REGULATIONS ARE NOT ALWAYS PREDICTABLE, ESPECIALLY WHEN LINKED TO A NEW LEGISLATIVE PERIOD. HOWEVER, CLOSELY MONITORING EXISTING AND ANTICIPATED LAWS IN THE CONTEXT OF MARKET TRENDS AND NEEDS ALSO OPENS UP OPPORTUNITIES.

A good example of this are micro apartments, which have emerged as a distinct asset class in the German rental housing market in recent years, leading to the diversification of the rental housing market into various sub-sectors. These include the traditional, privately financed or subsidised rental housing market on one hand, and operator-led micro apartment concepts on the other, such as student housing, business flats and in particular, senior and assisted living. While the traditional rental housing market remains by far the largest sector, interest in micro apartments has increased dramatically among both those seeking housing and institutional investors.

Unlike traditional rental flats, micro apartments are typically fully furnished and leased on a temporary basis, offering various services tailored to the target group. With lease periods usually exceeding six months, and extending to unlimited leases for senior and assisted living, they remain within the residential sector. They are distinct from commercial housing options like serviced apartments or aparthotels, which are generally intended for stays of less than six months.

Micro apartments cater specifically to the needs arising from sociodemographic developments – such as high mobility, limited time, or the desire for support and care in old age – addressing the growing housing shortage in large cities. At the same time, the operator model, service offerings, and full furnishing as an all-inclusive package mean that rent controls, such as rent caps and capping limits on increases, do not currently apply, allowing for significantly higher rents to be achieved.

Find out more about the micro apartments asset class [here](#). ✨



OVERVIEW OF APARTMENT CONCEPTS: COMMERCIAL AND RESIDENTIAL OFFERS

The main differences between the various micro apartment segments lie in the type of leasing. For example, micro-living and senior living are considered residential, while serviced apartments are commercial properties. Whether an offering is considered residential or commercial depends on various factors in each case and can only be broadly outlined here.

CHARACTERISTICS	RESIDENTIAL CONCEPTS				COMMERCIAL CONCEPTS		
	LIVING APARTMENTS				SERVICED APARTMENTS		
Length of stay	min. 3 to 6 months, for temporary use with time limit or indefinitely				1 night to 6 months		
VAT	exempt				not exempt		
Type of contract	Residential rental agreement				Accommodation contract		
Apartment concepts	Senior living	Micro living (Business Apartments)	Student living	Co-Living	Serviced Apartments	Apart hotel	
Rental model	Usually net rent plus service charge	Net cold rent or all-in rent	i. d. R. All-In-Miete		Bruttorate, inkl. Nebenkosten, Internet und i. d. R. Reinigung		
Operator	Yes and no	Yes and no	Yes and no	Yes	Yes	Yes	Yes
Apartment size (focus)	from approx. 40 sq m	approx. 25-40 sq m	approx. 16-25 sq m	approx. 20-150 sq m, also shared flats (Ø 14 sq m)	approx. 18-25 sq m	approx. 20-40 sq m	approx. 20-30 sq m
Furnishing	often unfurnished or partially furnished	unfurnished to fully furnished, mostly fully furnished		Partly and fully furnished / equipped	Fully equipped		
Services	none to specific	none to selected		selected	selected to complete	limited to selected	selected to complete
Shared areas	rather frequent	rather rare	none to extensive, mostly study rooms, launderette, media room	very pronounced, part of the concept		usually living lobby, fitness	mostly lobby, fitness & sauna, restaurant, bar, meeting rooms
Target groups	Senior citizens	Project workers, commuters, flat seekers	Students and trainees	Students, trainees, young professionals, expats, flat seekers, singles, especially international guests, live changers		mostly lobby, fitness & sauna, restaurant, bar,	

Source: Apartmentservice: Charta der Apartmentkonzepte, 2024

RESIDENTIAL TRANSACTIONS MARKET: PRICE STABILISATION IN THE GERMAN RESIDENTIAL INVESTMENT MARKET

THE TRANSACTIONS MARKET FOR RESIDENTIAL PROPERTIES HAS EXPERIENCED A BOOM IN RECENT YEARS. THE ANNUAL TRANSACTION VOLUME SINCE 2014 HAS AVERAGED ALMOST 19 BILLION EUROS AND REGISTERED NEW RECORDS ALMOST EVERY YEAR UP TO AND INCLUDING 2021. HOWEVER, SINCE 2022, RISING INTEREST RATES, INFLATION AND EVEN HIGHER CONSTRUCTION COSTS, HAVE SLOWED THIS BOOM.

In 2022, the transaction volume fell to 13 billion euros, its lowest level since 2012, and in 2023, it dropped further to just 6.4 billion euros. In the first half of 2024, the residential investment market achieved a transaction volume of 3.05 billion euros.

The types of transactions varied between the first two quarters of 2024. In the first quarter, single-asset transactions dominated, amounting to a total of 854 million euros, while portfolio transactions accounted for only 150 million euros. This changed in the second quarter: 1.35 billion euros were attributed to portfolios, particularly local ones, while single-asset transactions totalled 610 million euros.

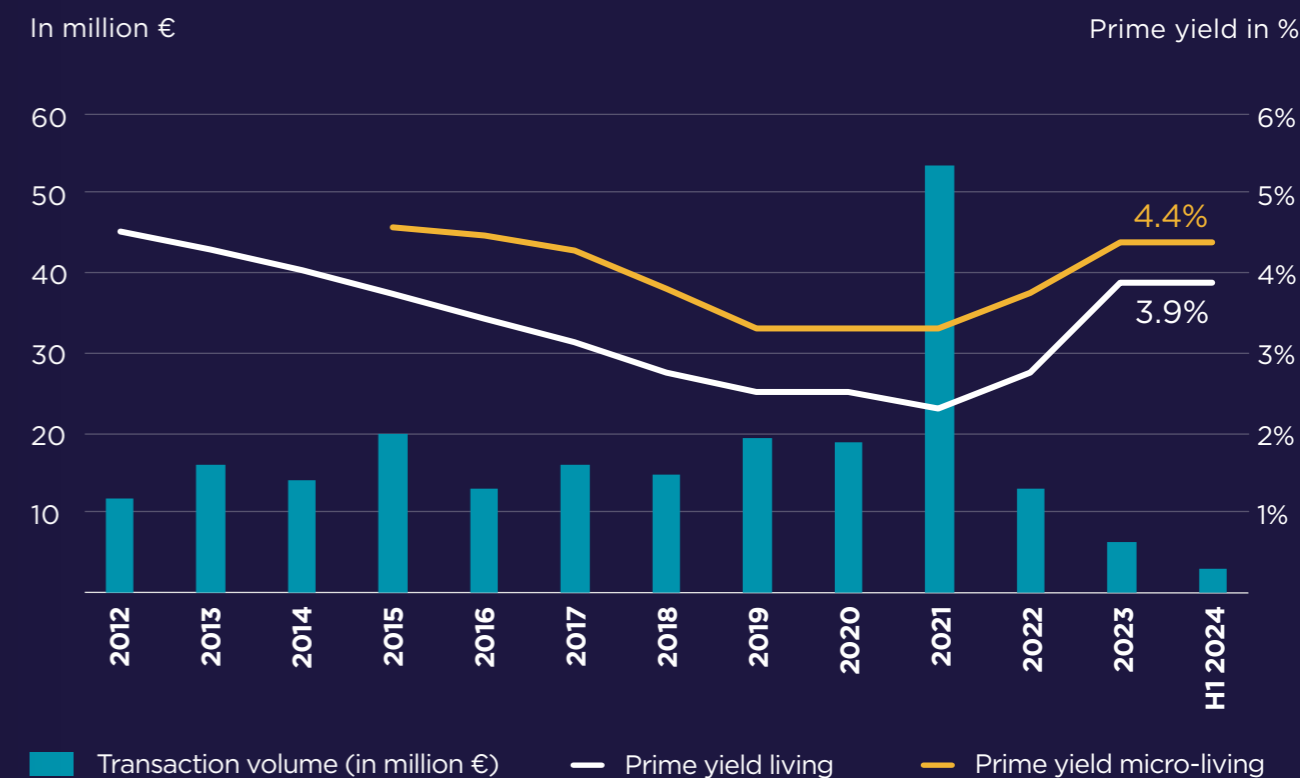
Around 82 per cent of the transaction volume is currently generated by domestic investors, with 18 per cent by foreign investors. The declining purchase prices and thus resulting more attractive yields are becoming increasingly appealing to foreign investors. The large rental and investment market in Germany offers ample opportunities for investors.

There is also growing activity in student housing and micro-living sectors: In the first half of 2024, a transaction volume of 155 million euros was recorded – already 33 million euros more than in the entire year of 2023. This is partly due to the lower level of regulation compared to the traditional rental market, as well as the high demand for housing in smaller flats.

Overall, despite increased regulatory measures, the residential investment market is expected to see continued high and growing demand from investors. This is mainly due to rising rents resulting from the combination of weak construction activity amid high demand for housing and an ongoing housing shortage.



HOUSING AND MICRO-LIVING: DEVELOPMENT OF TRANSACTION VOLUME AND PRIME YIELD UNTIL H1 2024



Source: Cushman & Wakefield, 2024

05

OUTLOOK

STAYING INFORMED CREATES OPPORTUNITIES

GERMANY'S STRONG ECONOMY AND CONSISTENTLY HIGH DEMAND FOR HOUSING, DRIVEN BY A GROWING POPULATION, MAKE RESIDENTIAL INVESTMENTS IN THE COUNTRY ATTRACTIVE. THE LARGE RENTAL MARKET IN PARTICULAR, WHICH IS THE SECOND LARGEST IN EUROPE WITH A TENANT RATIO OF 50 PER CENT, DRAWS INSTITUTIONAL INVESTORS AND REMAINS HIGHLY ACTIVE AND LIQUID DUE TO THE DIVERSITY OF ITS PLAYERS.

Even though the transaction volume in 2022 and 2023 dropped sharply compared to the record year of 2021 due to interest rates, price increases, as well as low construction activity, Germany remains a coveted investment destination within Europe, particularly for international investors. Over the past decade, it has consistently recorded one of the highest transaction volumes. Furthermore, Germany's demographic coupled with subdued construction activity, create a high demand for housing that is likely to persist in the coming years. In major cities, demand significantly exceeds supply, driving rents upwards.

This substantial demand surplus also leads to stricter market regulations, which can vary locally due to Germany's federal legal system. These regulations could particularly impact lease agreements that have so far been exempt from rent control measures, such as furnished and temporarily leased accommodation.

Successful investment decisions, therefore, require close monitoring of existing and potential future laws. When combined with an awareness of current and future market trends, this approach not only helps to avoid pitfalls but also to identify opportunities. The micro apartment segment exemplifies how the market can swiftly respond to regulations on the one hand and to changing housing needs on the other. Thoughtful investments in properties that are in need of energy-efficient renovations can also be profitable in the right location while providing social benefits.

This report, resulting from the collaboration between Hogan Lovells and Cushman & Wakefield, cannot replace the necessary in-depth and ongoing engagement with legislation and the market. However, we hope it has provided you with a useful overview of the background of the German rental market, its legal system, and some of the key legal instruments – being well-informed offers a genuine competitive advantage. We are happy to assist with any further questions you may have.

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SCAN TO VIEW
**THE LIVING REAL
ESTATE MARKET:**



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