

PATRIZIA INVESTMENT COMPASS

Residential Property Germany

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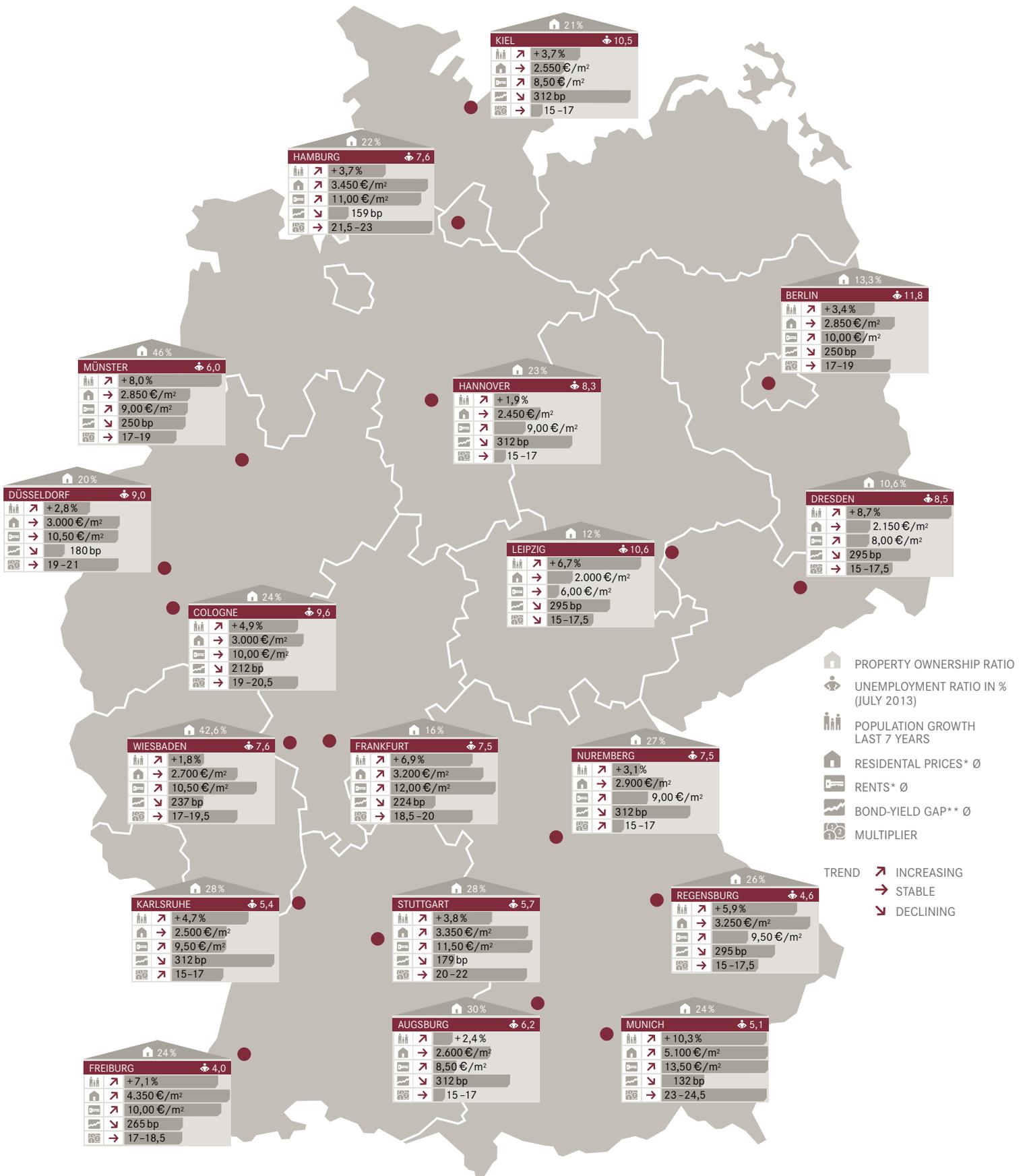
The German Census makes market reassessment on county level necessary

The results of the German Census 2011, which was published in spring, was the first census since ten years and lead to a reassessment of real estate markets in many German counties and cities. Eventually these results show that population numbers in Germany are faster decreasing than estimated, while they are increasing faster in some metropolitan areas. Additionally there exist more dwellings in Germany than extrapolated. The new PATRIZIA Investment Compass analyses the most important results to draw conclusions for the development of successful investment strategies.

After the censuses of 1987 in West Germany and of 1990 in the German Democratic Republic, Germany conducted its last census in 2011 as part of the data harmonization and policy evaluation across the members of the European Union and presented the results in May 2013. The focus of this census was on data gathering about demographic indicators as well as information about ownership, the number of buildings, and vacancy rates, among others.

First of all the census revealed that the German population was declining faster than extrapolated. All in all 1.5 m people less were living in Germany (-1.8%). On the level of the federal states the regional differences vary between -0.2% in Rhineland-Palatinate and -4.6% in Hamburg and -5.2% in Berlin. Besides these two city states only two further states, Baden-Württemberg (-2.5%) and Saxony (-2.0%) had deviations above the German wide average. Going down on the county level the differences between the population extrapolations and the census data range from -15% to +8%, with about 70% of the cases below zero. The regional distribution of population changes shows no significant spatial autocorrelation, however the regions around Munich and Hamburg show an up to four per cent higher growth rate in population from 2003 until 2011.

Looking at the number of residential units, the highest extrapolation errors on the level of the federal states can be found in Hesse (3.3%), Rhineland-Palatinate (3.3%) and North Rhine Westphalia (3.22%). In the



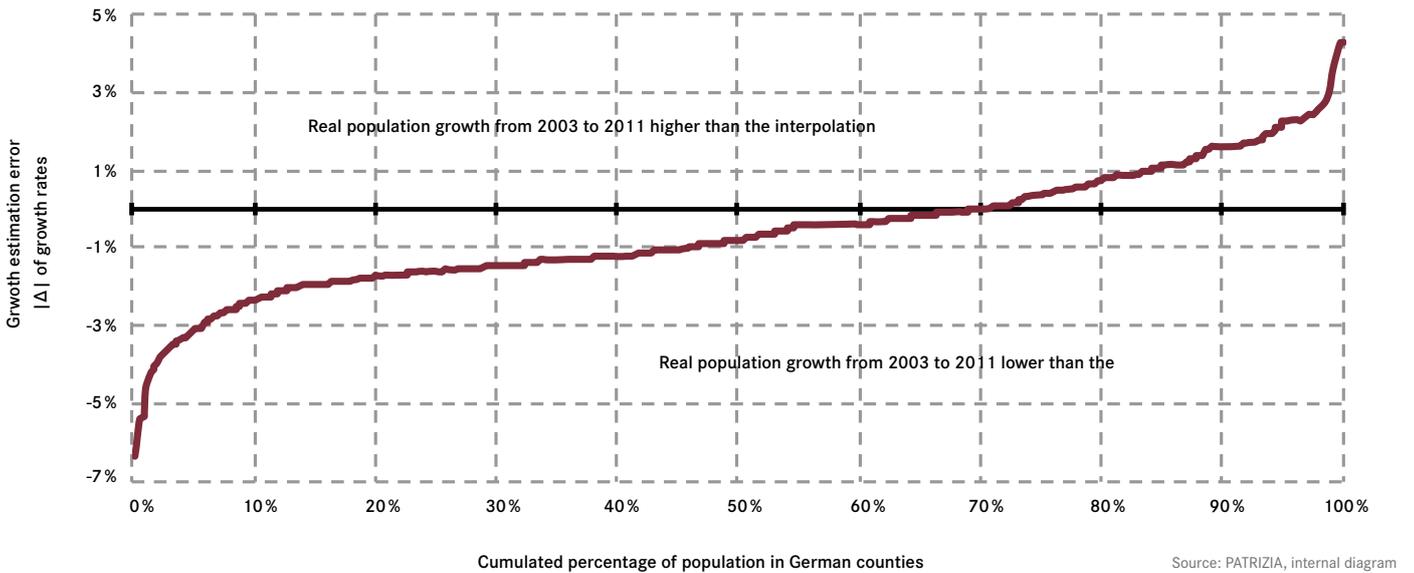
The PATRIZIA INVESTMENT COMPASS Residential Property Germany is a summary of relevant factors impacting specified German residential property markets. In this forum current market assessments and qualitative observations are published on a regular basis.

Sources: Primary data PATRIZIA Immobilien AG (offer and transactions database with more than 3,400 investment offers from EUR 1 million per year, regional press), German Federal Labor Office, Bertelsman Foundation, Empirica, Bundesbank.

* As of construction year 2000, good/very good location, modern property quality.

** The bond-yield gap is calculated as the difference of an average yield for an apartment house (in good/very good location and good property quality) and the yield of a 10-year government bond.

DIFFERENCE IN POPULATION GROWTH 03-11 USING INTERPOLATED AND REAL COUNTED POPULATION

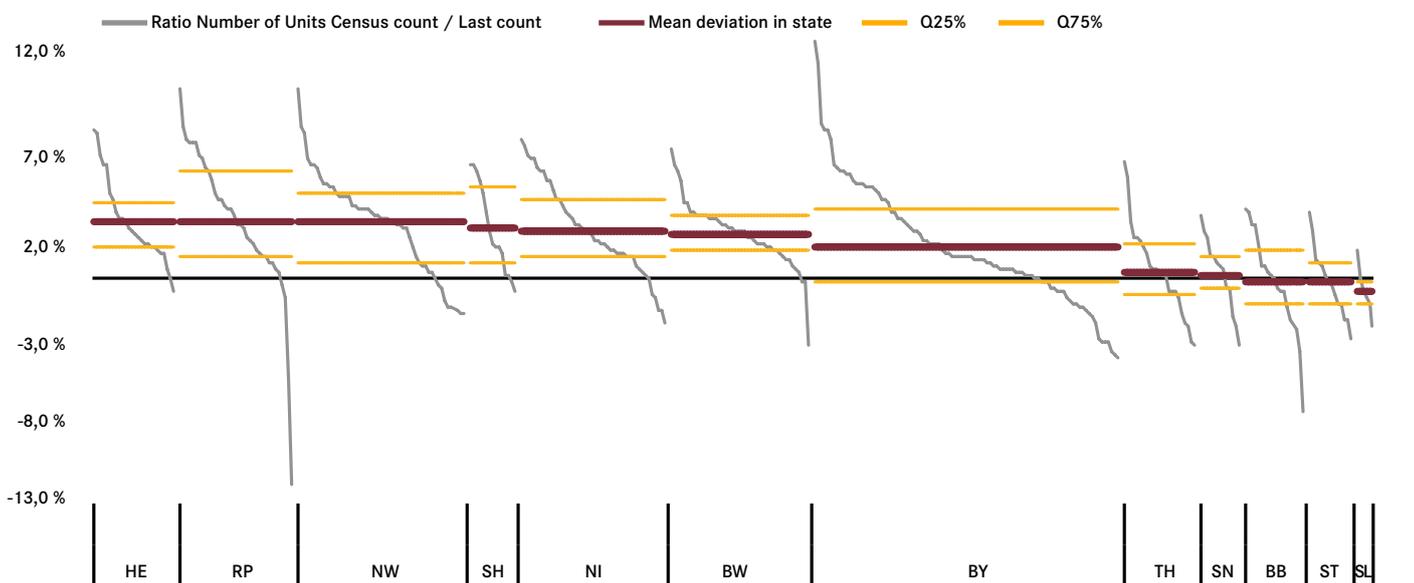


three states of Brandenburg, Saxony Anhalt and the Saarland the census showed an overestimation of the actual situation with the extrapolated results of 0.77%, 0.24% and 0.18% respectively. Analysing the mean deviation on state level, as well as the 25% and 75% quartiles for the county analysis within each state graphically, the results confirm much more clearly that there is no unidirectional effect of the new census results on the extrapolated number.

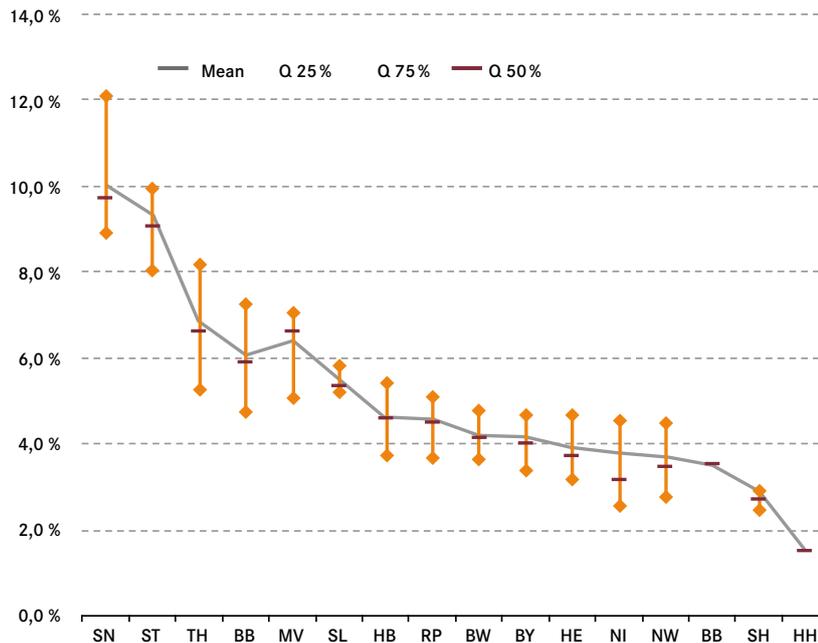
sible. On a state level the vacancy rates in the residential market range from 1.5% in Hamburg and 2.9% in Schleswig Holstein to round about 10% in Saxony. Looking down on the county level, the vacancy rates exhibit a spatial pattern, with the counties in the southern part, (especially around Munich) and in the north-west having the lowest vacancy rates in many cases of substantially less than 4 % of the available stock – indicating a supply constrained market in need of new construction if the population forecast indicates further growth. On the other side most eastern counties and regions in the middle of Germany generally offer enough residential units for the number of people living in these counties.

Furthermore this census for the first time provides official regional information on vacancy rates in the residential market, making an evaluation of the other privately provided market indicators on vacancy rates pos-

RATIO BETWEEN THE EXTRAPOLATED NUMBER OF RESIDENTIAL UNITS VS. CENSUS DATA ACROSS FEDERAL STATES AND COUNTIES IN 2011



MEAN AND DEVIATION OF THE VACANCY RATES IN THE STATES ON COUNTY LEVEL



Source: PATRIZIA, internal diagram

The results of the census compared to the extrapolation have an impact on investment decisions and key strategic portfolio management issues for real estate portfolio and investment managers because they influence important market parameters. Over- and under supplied markets of urban centres in terms of building stock and metropolitan areas with enhanced demand in terms of population growth can be identified. Further on detailed information about vacancy rates help to estimate future real estate market saturation and make it easier to determine markets with an enhanced refurbishment rate (relating to the aspect of qualitative demand, which is crucial in demographically stagnating or shrinking regions).

This new information about the population numbers in combination with the new figures about the number of residential units in a county leads to a reassessment of the market situation of many counties in Germany. From the perspective of an institutional investor this reassessment is in some cases positive and in some cases negative, as the deviations of the actual population numbers and numbers of residential units from the extrapolations are not correlated and often operate in different directions

from an investor’s point of view. In this case an investor has to weight the deviations according to the importance for his individual investment strategy. Additionally, this information, combined with the data about the age structure of the housing stock are a valuable input for investment strategies. Especially strategies targeting refurbishments or wholesale to retail conversions as well as niche segments in the rental market can profit from the new census data with its selective figures about the construction year of the buildings as this helps to assess the quality of the existing housing stock because these figures are a suitable indicator for current and future refurbishment needs and can help to estimate qualitative housing demand resulting from outdated unit configurations or building characteristics like missing elevators.

Contact: research@patrizia.ag

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