Press Release

Hamburg's Real Estate Market in 2023: Offices Remain Robust, but Housing Faces Major Challenges

- Germany's real estate boom over for now
- Many construction projects and acquisitions postponed or shelved
- Lenders act more cautiously
- Hamburg's office market remains robust, reporting stable prime rents, high take-up and low vacancy rates; with occupiers & investors gravitating toward sustainability
- Residential market: Shortfall in new-build construction increases pressure on rents
- Asking price discounts in response to changed funding terms

Hamburg, 26 January 2023 – The lengthy real estate boom of the past twelve years is over – both in Hamburg and in the rest of Germany. Rising interest rate levels, high inflation rates, disrupted supply chains and tightening sustainability requirements represent tremendous challenges for the real estate industry. Many market players are uneasy, with investors showing a growing risk aversion while lenders act more cautiously. But Hamburg's office market is in a robust condition nevertheless. Stable prime rents, a high take-up and low vacancy rates reflect the persistently high appeal of the office market in Germany's leading port city. On the residential market, by contrast, the persistent housing shortage is driving up rents, while changed terms of financing have resulted in asking price discounts. These are the main takeaways of a press conference headlined "**Hamburg's Real Estate Market – Outlook for 2023**" that was attended by Peter Axmann, Head of Real Estate Clients at Hamburg Commercial Bank, Jörn Stobbe, CEO of Becken Holding GmbH, and Sascha Hanekopf, Regional Manager Hamburg at Colliers.

Real Estate Lenders More Cautious – ESG Transition Presents Growth Opportunities

"The past year saw a turning point. A real estate boom of many years was ended by rising interest rates, tightening supply bottlenecks and drastic increases in construction costs – causing unease among all market players. Real estate lenders have responded with visible reticence to the developments of recent months in their loan approvals, especially when it comes to the funding of property developments. They expect higher equity capital commitments, and have raised their mark-ups in order to cushion the elevated risk costs," said

Peter Axmann, Head of Real Estate Clients at Hamburg Commercial Bank. With respect to the increasingly important ESG requirements, the expert had this to say: “We intend to support the economy’s transition to more sustainability in our role as financiers because the capex requirements that companies face are enormous. To be sure, the transformation of real estate from ‘brown to green’ will translate into growth opportunities for financial institutions. But undertaking energy refurbishments will not be technically and economically feasible for all properties, so that we will see a number of ‘stranded assets’ as well.”

Going forward, Peter Axmann predicts a further rise in rents as a result of the strained housing market and the elusive government goal of seeing 400,000 new-build apartments completed annually in Germany: “I expect the proportion of household incomes that goes toward rental costs to increase from one quarter up to around 35 percent in future. This means that Germany’s metro regions will close in on other countries in Europe where housing is more expensive even today.” In addition to the persistently strong demand for housing and the shortfall in new-build construction over the past years, the budgets of property developers would also reflect the rising costs for energy-efficient types of construction, which are ultimately passed on to the tenants.

Office Real Estate Market Retains its Appeal in the Context of ESG Standards

A look back reveals a steady increase in prime rents. Specifically, it stood at 35 euros/square metre in 2022 while the average rent equalled 22 euros/square metre, a 19 percent increase since 2021. Office take-up, having bottomed out in 2020, resumed its growth trajectory in 2022 and added up to 554,000 square metres by the end of the year, which is 77,000 square metres more than the year-end total of 2021. The last time it achieved a similar peak level was in 2018 with a take-up of 563,000 square metres. The vacancy rate dropped by 10 basis points down to 3.9 percent. The pre-let ratio was 62 percent. In the localities Alsterlagen (1.7 percent) and HafenCity (2.2 percent), vacancy rates were particularly low (source: BNPPRE 12/2022).

“In 2023, an interest rate market less volatile could translate into higher transaction security. Hesitant investors and reticent banks could cause the transaction volume to decline even further. The high construction prices also make it reasonable to expect a dip in completions, which in turn will keep vacancy rates from rising and keep driving up rents, not least as a result of indexed leases and ESG requirements,” said **Jörn Stobbe**, CEO of Becken Holding GmbH, and went on to predict: “The outlook for the office real estate market remains bright, but in the long term, this goes only for sustainable property developments or for standing properties refurbished and upgraded. Sustainability criteria play an increasingly important role for investors and particularly for tenants when selecting office properties. If you make your standing property fit for ESG, you will enhance its long-term value."

Persistent Housing Shortage in Hamburg Driving up Rents – Changed Funding Terms Resulting in Asking Price Discounts

In 2021, only 7,461 apartments were completed in Hamburg, a year-on-year drop by one third. Based on these figures, Colliers puts the city's aggregated housing deficit for 2021 at 51,833 units. *Passing rents* in Hamburg rose by an annual 3.2 percent between 2017 and 2022, with the strongest hike recorded in 2022 at 3.8 percent, which exceeds the average. Striking to note here is that the increase in *new-build rents* in 2022 (+6.2 %) visibly gained in momentum compared to the average of the years 2017 through 2022.

Sascha Hanekopf, Regional Manager at Colliers in Hamburg, elaborated: "The lingering difficulties with supply chains and the rising construction costs will continue to slow construction activities in Hamburg in 2023. There is no reason to assume that the housing deficit will be reduced in the foreseeable future. In addition, we have noted a growing demand shift into the urban periphery: Districts like Billstedt are becoming increasingly attractive because they combine affordable residential accommodation that is still available here with convenient transport links to downtown Hamburg."

Colliers predicts that the housing market dynamic will adapt to the current market environment. Sascha Hanekopf: "Further interest rate moves will increase the pressure on property yields. Even though the interest to invest in Hamburg's housing market remains strong, its prices are likely to respond to the latest economic shifts in future. Tightened funding terms and unchanged dividend expectations among investors will prompt asking price discounts in the medium term."

Press contact at Hamburg Commercial Bank

Katrin Steinbacher
Head of Press
Gerhart-Hauptmann-Platz 50, D-20095 Hamburg
+49 (0) 40 3333-11130
katrin.steinbacher@hcob-bank.com

Press contact at Becken Holding
c/o RUECKERCONSULT GmbH
Christiane Schacht
+49 (0) 30 2844987-47
schacht@rueckerconsult.de

Press Contact at Colliers Deutschland
c/o RUECKERCONSULT GmbH
Judith Väthjunker
+49 (0) 221 292956 314
vaethjunker@rueckerconsult.de

About Hamburg Commercial Bank AG

Hamburg Commercial Bank ("HCOB") is a private bank headquartered in Hamburg. HCOB offers its clients a high level of structuring expertise in the financing of commercial real estate projects while also maintaining a strong market position in international shipping. The bank counts among the pioneers in Europe-wide project financing of renewable energies and digital infrastructure. Offering individual financing solutions for international corporate clients, it also pursues a focused corporate client business in Germany. The bank's portfolio of deliverables is rounded off with prompt and reliable payment transactions as well as with trade finance products. HCOB has aligned its activities with established ESG criteria. For more details, go to www.hcob-bank.de

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