

German real estate: Risks and opportunities in a shifting landscape

How does the prevalence of home offices influence the development of new office space? What does Internet use mean to real estate investors? Which sectors will see the highest demand for investment?



There's no place like home

Home offices and the Internet revolution are poised to redraw the landscape of German real estate, as **Stefan Feuerriegel**, partner of global law firm White & Case, explains.

Two socio-technological trends—home offices and the collateral effects of the Internet revolution—are shaking up the real estate market in nearly every industrialised nation. Germany is no exception, and analysts are watching closely to see how these trends will affect the country's real estate markets.

To discover more, we surveyed industry experts to learn how they expect home offices and the aftereffects of the Internet revolution to influence the course of real estate markets in Germany over the next several years.

One of the most striking findings of our survey is the extent to which homeworking and the Internet are expected to impact real estate markets. While the respondents are yet to feel the effects of these changes directly, there is little doubt that these forces will reshape the real estate markets dramatically.

Home office: A social trend with consequences

The proportion of employees who work from home is growing, both globally and in the European Union (EU). But despite a domestic increase in the availability of homeworking-friendly technical infrastructure and workhour flexibility, Germany has seen no recent rise in home offices. In fact, the number of home workers in Germany has declined since 2008,

according to the German Institute for Economic Research.

Still, nearly five million workers in Germany—more than 10 per cent of the working population—practiced their profession mainly or occasionally at home as recently as 2012. Perhaps this fact, coupled with the global rise in homeworking, explains why more than 60 per cent of respondents in our 2015 survey believe that the proportion of home offices in Germany will rise over the next five years.

Views are split on the extent to which the increase will affect each real estate sector, but a majority predict that the residential and retail property sectors will be affected little, if at all, with the office property sector feeling the effects more dramatically. While the obvious home office hit to the office sector has decreased demand for traditional office space, respondents also predict a rising market for homeworking-inspired innovation. 60 per cent see opportunity in demand for shared spaces and new floor plan designs, and one out of four anticipates such product innovations as office apartments in residential buildings.

The classical office will always have its important function not only with regards to representation, central facilities and meeting rooms, but also for the social life of a company. What the results of the survey highlight is that there



How will the proportion of home offices change over the next five years?

63%
said it will increase

35%
said it will remain unchanged

2%
said it will decline

Source:
White & Case 2015
Real Estate Survey

are great opportunities for innovative players in the real estate industry for developing residential units and shared office buildings in non-classical neighborhoods.

Because retail operations require customer proximity, few respondents think home offices will have much effect on retail properties. However, the experts are predicting an increase in space, driven by homeworking, for logistics properties due to an anticipated surge in demand for double-duty delivery services to both home and traditional offices.

Cross-sectional analysis of survey results reveals a correlation between a respondent's authority level and expectations: three-quarters of department heads expect the proportion of homeworkers to rise, but only half of those at the head of their business agree.



There is little doubt that homeworking and the Internet will reshape the real estate markets dramatically

Internet: A revolution for the real estate sector?

The onslaught of online retail is driving down interest in brick and mortar retail properties and boosting the appeal of logistics properties, whose value has soared on the exploding demand for delivery services. Since 1995, the logistics industry in Germany has seen an annual average growth rate of 3.3 per cent.

In 2013, suppliers originating from stationary retail operations achieved online sales worth nearly €3.1 billion, and that number is rising steeply. For 2015, German e-commerce association bevh predicted a 25 per cent boost from 2014's sales.

But despite the surge in online sales, survey respondents say the Internet's effects are not felt everywhere. 30 per cent, for example, say the digital revolution has had only a slight effect on real or projected property values in the residential, hotel and industrial sectors.

For the retail sector, respondents see significantly higher effects on shopping centers than on retail parks. Shopping center tenants are the hardest hit by competition from online retailers, and are facing other Internet-derived pressures, such as customer demands for free WiFi access or dedicated mobile apps. Because they double as neighborhood social centers, retail parks are better positioned to survive the rise of online shopping.

Survey participants were asked whether they expect their everyday Internet use to change over time, and their responses fed into a



Great opportunities open up for innovative players for developing residential units and shared office buildings in non-classical neighborhoods

revealing cross-sectional analysis—those who expected the Internet's role in their daily lives to grow were more likely to predict a rise in home offices.

The future is bright, but prospects are middling

Overall, the outlook for the German real estate market could not be better, the experts say. Survey participants predict rising prices in all segments. 90 per cent of respondents predict that residential properties will be in particular demand in 2016. 80 per cent of respondents foresee an especially high demand for logistics properties; the steady growth in online retailing and stable German economy contribute to that optimism.

Demand for German real estate is now the highest it has been since the investment boom of 2006 to 2008. Historically low interest rates, favorable financing conditions and high liquidity are bolstering the trend.



How important is the Internet in your daily activities today?

71%
highly important

29%
moderately important

Source:
White & Case 2015
Real Estate Survey

But experts are keeping a watchful eye on a few trouble spots. Prices for industrial properties are likely to increase only marginally, the survey says. And for office, hotel and retail properties, only a slight majority of respondents expects a near-term demand any better than "not particularly high."

The experts' sentiments align with other assessments from our research. Rising prices and falling yields have significantly curbed investor interest in retail properties. Retail assets in prime locations and shopping centers in major cities have become expensive trophy properties.

In retail parks and retail warehouses, neighborhood centers and grocery stores, the interest is up, according to our survey. In 2014, retail warehouses had the highest turnover within the retail sector, and are now more popular with investors than shopping centers.

A leap of faith

German real estate professionals are savvy futurists. Even where the data suggests that the German market may be jumping onto the home office and Internet-features bandwagons a little more slowly than markets in other advanced European economies, they know too well the cost of failing to prepare for imminent social and technological upheavals.

With long-term plans already on the boards, market participants are positioning themselves for a profitable future, and betting that, sooner or later, as the rest of the EU goes, so must Germany.

Methodology

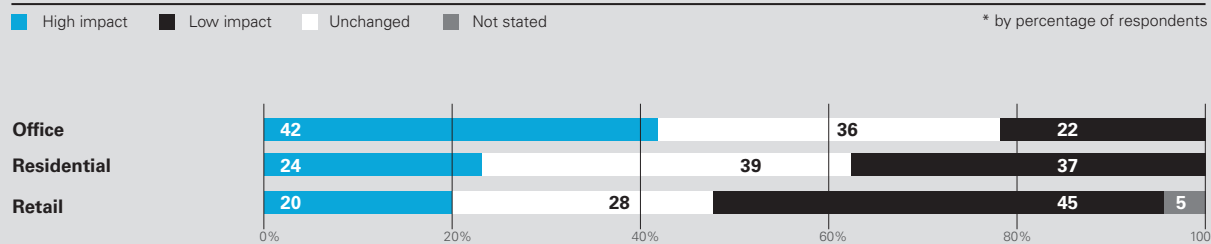
In summer 2015, bulwiengesa, commissioned by White & Case, polled the opinions of 70+ real estate professionals in Germany. The survey participants represented various sectors of the industry, including property development, asset management, banking/real estate financing, real estate funds, insurance, agency/property sales, private wealth/family offices, listed

real estate companies, and construction/general contractor firms. 80 per cent of the respondents were in management positions. The survey included qualitative and quantitative questions, and a series of telephone interviews conducted by appointment. All responses are anonymised and presented in aggregate.

Spotlight on real estate trends in Germany

How homeworking and the Internet are impacting the real estate market.

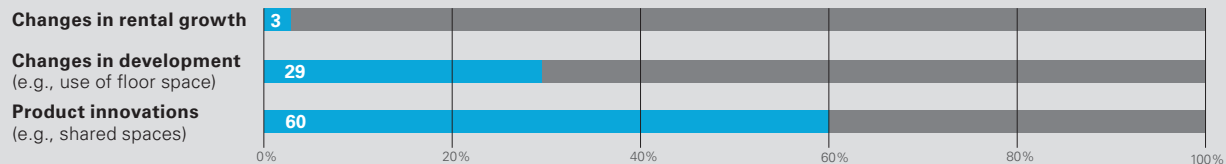
What impact will the growing homeworking trend have on various segments of the real estate market?*



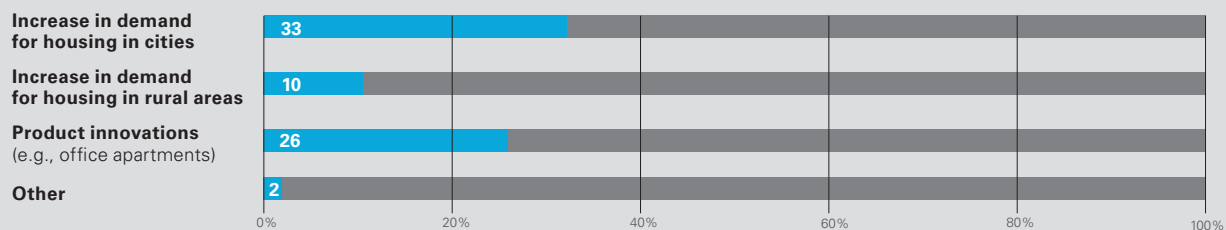
What will the likely implications of homeworking be for the various real estate sectors?*

* by percentage of respondents

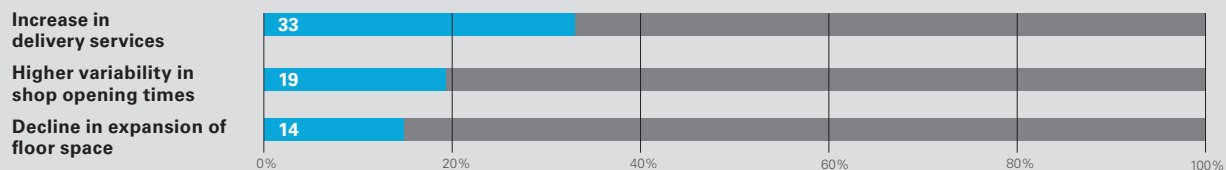
Office



Residential

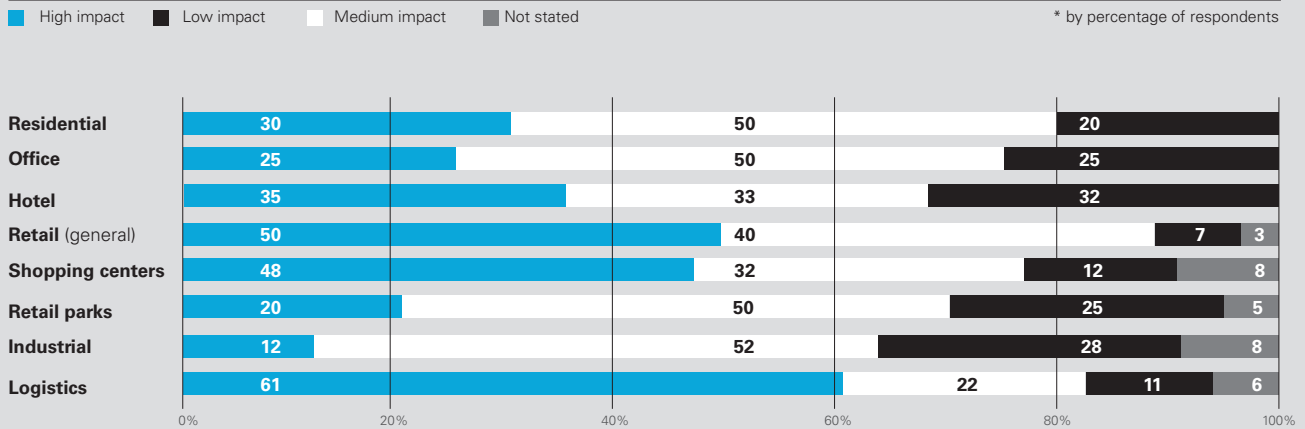


Retail

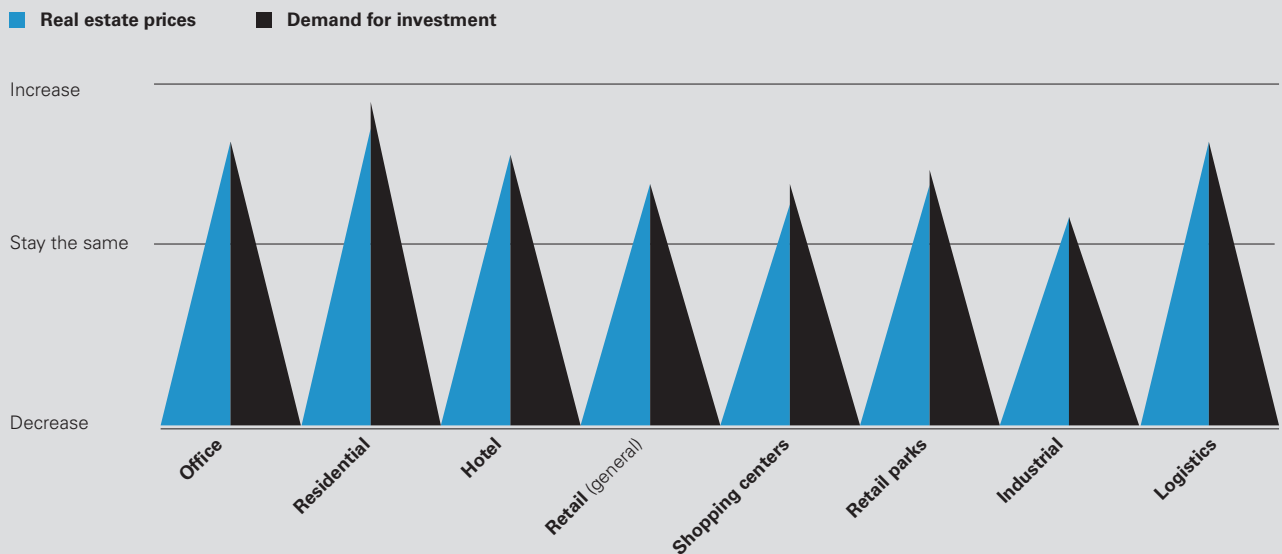


Source: White & Case 2015 Real Estate Survey

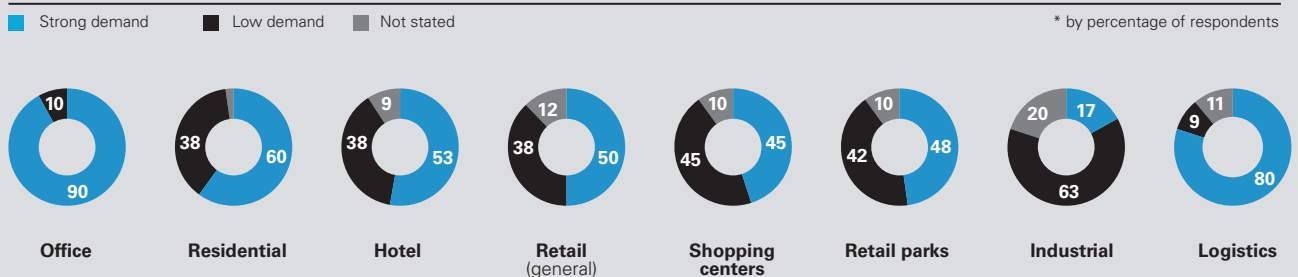
How will the changes wrought by the Internet impact the interests of investors in various real estate sectors (either directly or indirectly)?*



Real estate investment outlook for 2016



Which asset classes are likely to be in strong demand in 2016?*



Source: White & Case 2015 Real Estate Survey

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