

MAP REAL ESTATE MARKET INSIGHT

Frankfurt, September 2023

THE REAL ESTATE MARKET IN THE FACE OF DEMOGRAPHIC CHANGE: CHALLENGES AND OPPORTUNITIES. PART 2: IMPLICATIONS FOR THE REAL ESTATE MARKET

Introduction

In the last Market Insight, we dealt with demographic change in Germany and described how it is already in full swing today and what can be expected for the future. It has been made clear what challenge the aging of the population will pose for economic development if we fail in halting the decline in the labor force potential. Now we turn to the consequences that can be expected for the real estate market. It will be shown that, in addition to challenges, there are also opportunities for investors.

Before we look at individual asset classes such as office and residential, micro-apartments and care properties, we will first analyze one impact of demographic change that affects the real estate industry as well as all other sectors of the economy: the increasing shortage of personnel. We then look at the implications of demographic change for the office market, the residential market and the market for senior citizens properties.

Many of the interesting research results we will present look very far into the future, often by several decades. This is necessary and imperative because demographic change takes place over the very long term. In the last Market Insight, we outlined that demographic forecasts are nevertheless satisfactorily accurate because the crucial parameters such as life expectancy and birth rate change only very slowly. When conclusions are drawn for the real estate markets from demographic forecasts, it is important to emphasize that they refer only to the demographic influences on the markets. These can be mitigated or offset by the many other factors that make up market development. No statement can be made about this today because of the long time periods involved, and the research results must not be interpreted in this direction. The current crisis in the real estate markets in particular shows that there may be considerable changes ahead that will have a strong impact on future developments. Added to this is the ever-increasing importance of artificial intelligence in the processes of companies. Disruptive tendencies could also emanate from here, but the extent of these is not foreseeable at present.

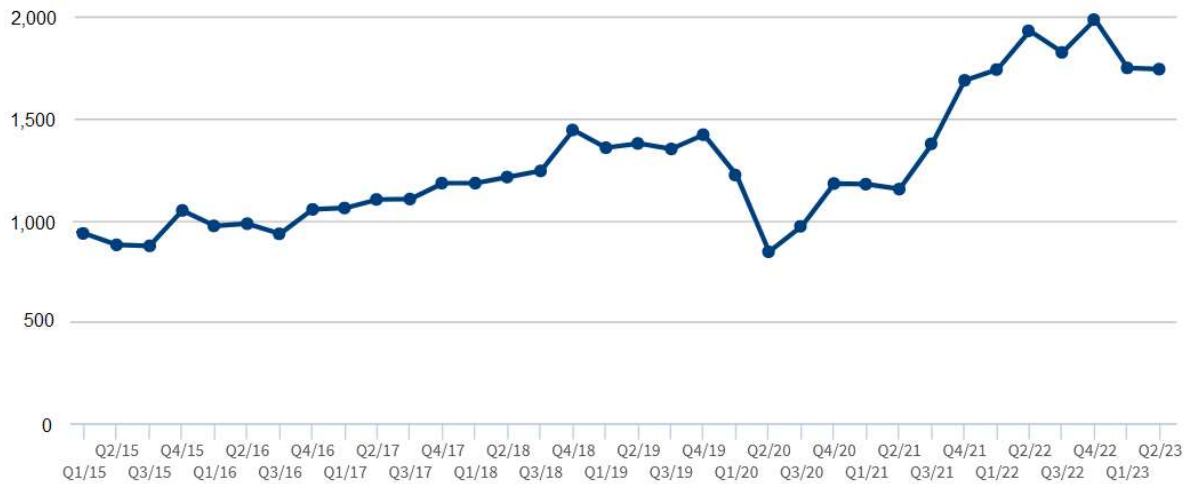
Shortage of skilled workers

In economic terms, the strongest impact of demographic change comes from the decline in the potential labor force. This part of the population provides the workforce and thus the taxpayers and contributors to the pension system. At the same time, employees ensure the innovative strength and growth of companies. If companies have difficulties in shaping their workforce as desired, this has a negative impact on economic development.

Figure 1 illustrates the relevance of the issue by looking at the number of job vacancies since 2015. It can be seen that German companies are having increasing difficulty filling vacancies.

Only the Covid-19 pandemic has interrupted this long-term trend. In a recent survey, 53% of companies of all sectors stated that they were not able to fill vacancies in 2022.¹

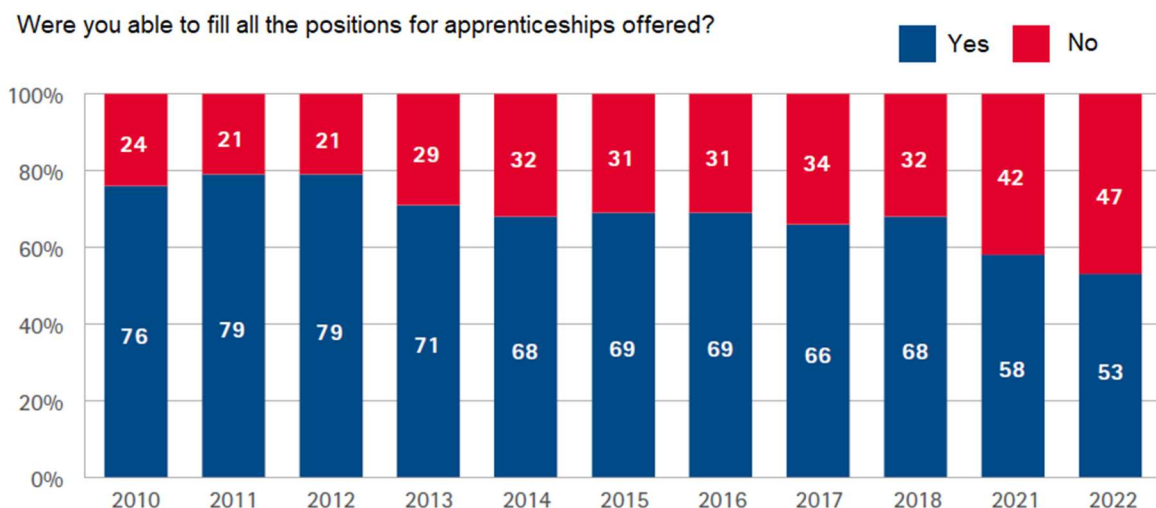
Figure 1: Number of Vacant Positions in Germany Q1/2015-Q2/2023 – in 1,000 Persons



Source: IAB-Stellenerhebung. <https://iab.de/das-iab/befragungen/iab-stellenerhebung/>

Today's labor market for apprenticeships offers an interesting glimpse of the future, because it is all about the current young generation that is about to enter the world of work. The results of the current DIHK apprenticeship survey are shown in Figure 2. It is evident that filling vacant training positions is increasingly becoming a challenge for many companies. In 2022, only around half of the employers surveyed managed to fill all the vacancies advertised for apprentices.

Figure 2: DIHK Apprenticeship Survey 2023: Proportion of Companies Unable to Fill Vacant Apprenticeship Positions



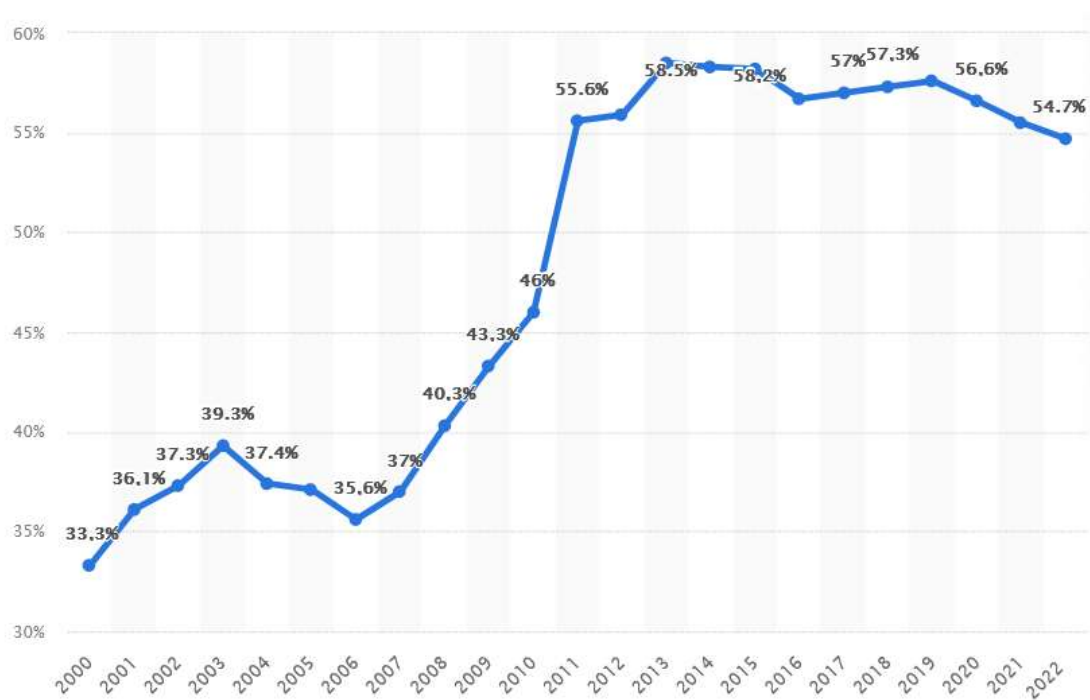
Source: DIHK Deutsche Industrie- und Handelskammer: Ausbildung 2023. Ergebnisse einer DIHK-Online-Unternehmensbefragung. <https://www.dihk.de/de/themen-und-positionen/fachkraefte/aus-und-weiterbildung/ausbildung/ausbildungsumfrage-23>

¹ DIHK Deutsche Industrie- und Handelskammer: Fachkräfteengpässe – weiter steigend. DIHK-Report Fachkräfte 2022.

In principle, there are many conceivable reasons why a young person decides for or against starting an apprenticeship. One could be the attractiveness of alternative educational paths, such as higher education at a university. Indeed, the proportion of first-year students per birth cohort has increased very sharply since 2006 (see Figure 3). Since 2010, however, it has not changed significantly and has even been declining again since 2019.

The increasing difficulty for companies to fill their apprenticeship positions is therefore very much related to demographic change. The sector-specific differences are quite large. In the construction sector, the share of companies which stated that they had not found a suitable applicant for each of the training places they offered was only slightly higher than the average at 48% (47%).² The situation is significantly worse in the hospitality sector (62%) and industry (56%), for example. A top position in the survey is occupied by the real estate sector with only 13% of the companies surveyed unable to fill all their training places, ahead of the media (28%) and the events industry (33%), among others. However, one reason for the sector-specific differences, in addition to the diversity of the companies' activities and their popularity among young people, could also be that the proportion of apprenticeship occupations in the sectors varies greatly. In an industry where a vast majority of employees have a university degree, it is easier to fill the smaller number of apprenticeships.

Figure 3: Share of First-Year Students in the Population of the Corresponding Year of Birth



Source: Statista, 2023: Entwicklung der Studienanfängerquote¹ in Deutschland von 2000 bis 2022. <https://de.statista.com/statistik/daten/studie/72005/umfrage/entwicklung-der-studienanfaengerquote/>

The long-term forecasts for the labor force potential that we presented in the last Market Insight show that the shortage of skilled workers will become even more acute in the future. If opportunities cannot be exploited due to a shortage of personnel, this will have significant consequences for economic growth and revenue development for companies and thus also for the state. For the workforce, this usually means a greater burden on existing personnel,

² DIHK Deutsche Industrie- und Handelskammer: Ausbildung 2023. Ergebnisse einer DIHK-Online-Unternehmensbefragung. <https://www.dihk.de/de/themen-und-positionen/fachkraefte/aus-und-weiterbildung/ausbildung/ausbildungsumfrage-23>

as they often must take on more tasks. From the point of view of companies, labor costs are expected to rise, because in times of a short supply of labor, personnel recruitment becomes more expensive. In addition, the long-term commitment of employees is falling, and this must be counteracted to avoid renewed recruitment costs and a brain drain.

This also includes trying to maintain staffing levels for as long as possible in times of crisis. In the construction industry, almost 72% of the companies surveyed in a DIHK study in the early summer of 2023 still answered that they did not plan any layoffs in the next 12 months.³ Another strategy that has been pursued by the industry in the past is the integration of the unemployed. In 2007, the annual average number of unemployed skilled construction workers was 70,000; in 2022, the figure was only 15,270 (civil engineers: 4,400 vs. 1,630). Skilled workers from abroad are also playing an increasingly important role in the construction sector. In the main construction sector, their share rose from 9% to 23% between 2009 and 2022.⁴

In the last Market Insight, we highlighted that the decline in the labor force potential due to demographic change can only be cushioned by a fundamental change in immigration policy. We cited the example of Switzerland, because while the German population grew by less than 1.5% between 2000 and 2020, the small country of Switzerland has absorbed an increase of more than 20%⁵, predominantly caused by immigration. This proves that an immigration policy that is consistently geared to the needs of the labor market could well meet with acceptance among the population if the costs of demographic change were communicated more clearly. The positive experiences which other countries, such as Canada, have had with such an immigration regime should also be considered.

Effects of demographic change on the office market

A decline in the number of employees in the German economy will not be without impact on the market for office properties. However, it is difficult to estimate what exactly the effect will be. Future demand for office space will also be influenced by a variety of other factors. In addition to cyclical economic influences, these include the future competitiveness of the German economy. Added to this are changes resulting from the further development of AI and its use in occupations that have so far only been marginally affected by automation processes. However, it is still too early to make a reliable forecast here.

It seems obvious that, in principle, fewer employees also mean fewer office jobs and therefore less demand for office space. But a distinction must be made, because other factors are also relevant for the office market.⁶ These include the share of office jobs in all jobs and the space required per office job. It is also possible that changes in the structure of the economy, such as a further growth of the service sector relative to industrial, will lead to higher demand for office space. Changes in the office work environment could point in the same direction: The home-office trend in itself tends to favor space reductions, but the

³ Bauindustrie, 2023: Fachkräftesituation im Bauhauptgewerbe. <https://www.bauindustrie.de/zahlen-fakten/auf-den-punkt-gebracht/fachkraeftesituation-im-bauhauptgewerbe>

⁴ Cf. *ibid.*

⁵ <https://www.swissinfo.ch/ger/multimedia/10-millionen-schweiz-zuwanderung/48631798>

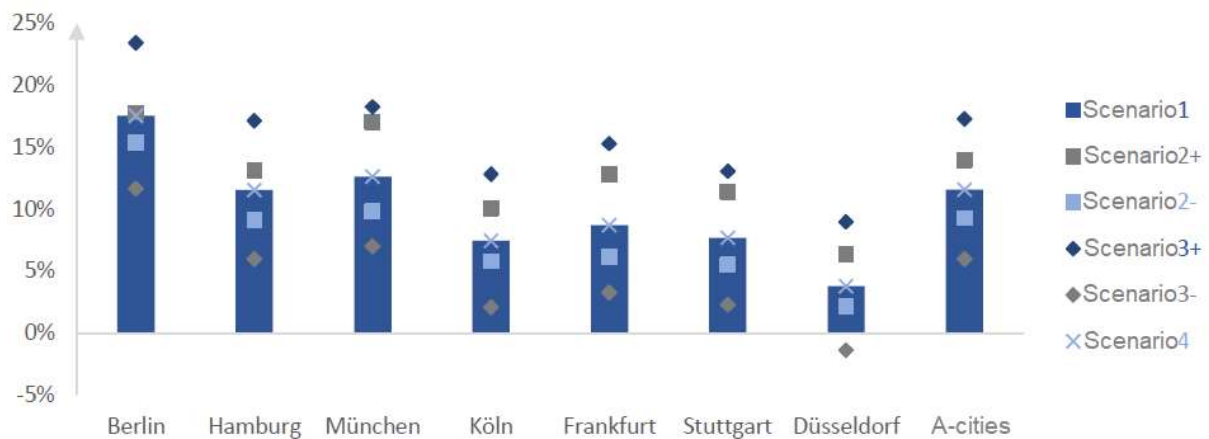
⁶ EBS Universität für Wirtschaft und Recht and EBS Real Estate Management Institute, 2023: White Paper #2: IMMOBILIENWIRTSCHAFT UND DEMOGRAPHISCHER WANDEL – AUSWIRKUNGEN, POTENTIALE, RISIKEN. Eine Betrachtung der Assetklassen Office, Living und Retail.

sustainability of the trend is unclear, as is whether more need for community spaces for communication etc., will not offset the decline in demand for space.⁷

A study by the International Real Estate Business School Regensburg and Berenberg Bank has attempted to estimate the impact of some influences on the future demand for office space in Germany's A-cities.⁸ The uncertainty of such multifactorial calculations is high, which is one of the reasons the time horizon of the study only extends to 2030. Nevertheless, certain trends can be read from it, but these must be interpreted with caution. An important finding of the study is that the sensitivity of the results to changes in the underlying assumptions is quite high. Small fluctuations can result in strong reactions on the office market. The labor force participation rate in particular has a major impact. If it does not absorb the demographic development, its consequences will be particularly strong.⁹

In almost any of the calculated scenarios, each representing different combinations of assumptions, the number of office jobs in A-cities increases by 2030 (see Figure 4). However, the range of growth rates is quite high. Depending on the scenario, the growth in office jobs in Berlin could be as high as nearly 25%, while for Düsseldorf a decline of demand is also possible.

Figure 4: Development of Office Workplaces in German A-Cities 2020-2030



Source: IRE/BS Immobilienakademie and Berenberg, 2022: Büroimmobilien nach Corona – Ein Szenarienanalyse.

Figure 5 shows for the baseline scenario (Scenario 1) what office space demand will result from the number of office jobs by the end of the decade. The baseline scenario is founded on conservative assumptions that are broadly a continuation of existing trends, and marks roughly the middle of the possible range. The graph shows that growth in demand slows in all cities by 2030. In Düsseldorf, Cologne and Munich, it even declines slightly in absolute terms.

As mentioned at the beginning, the uncertainty of these projections is high, as the influence of the individual factors is quite strong and small variations lead to significantly different results. It is certain, however, that the quantitative and qualitative demand for office space in the future will be strongly influenced by the expectations of employees.¹⁰ Their market

⁷ Cf. *ibid.*

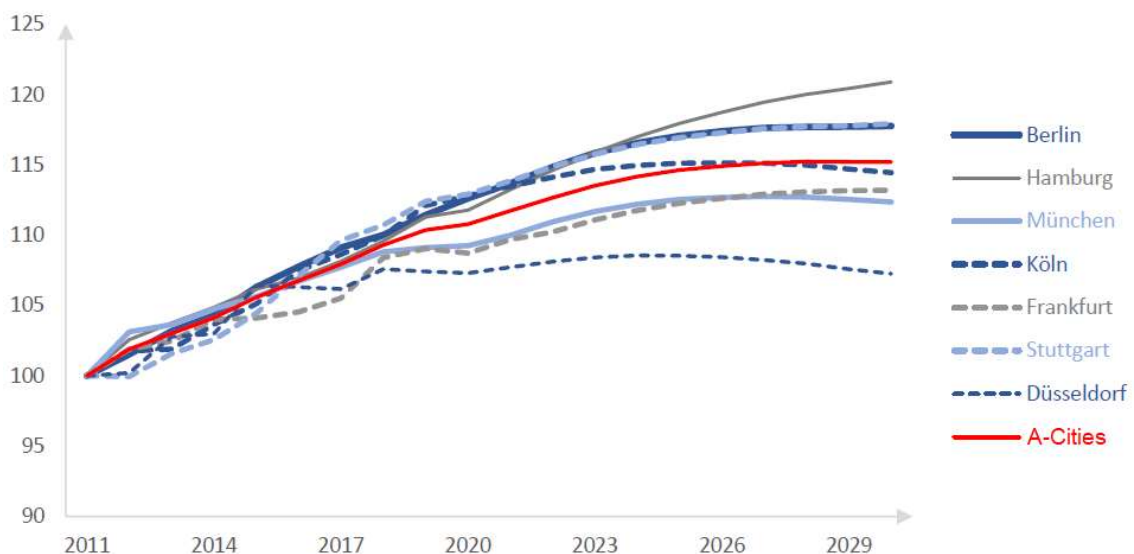
⁸ IRE/BS Immobilienakademie and Berenberg, 2022: Büroimmobilien nach Corona – Ein Szenarienanalyse.

⁹ Cf. *ibid.*

¹⁰ EBS Universität für Wirtschaft und Recht and EBS Real Estate Management Institute, 2023: White Paper #2: IMMOBILIENWIRTSCHAFT UND DEMOGRAPHISCHER WANDEL – AUSWIRKUNGEN, POTENTIALE, RISIKEN. Eine Betrachtung der Assetklassen Office, Living und Retail.

power to enforce these expectations will increase in the battle for young talent. The ideas of the baby boomer generation and, for example, the young Generation Z about how an office building and office workplaces should be designed differ greatly, e.g., with regard to the relevance of ESG compliance. Since these attitudes correlate closely with age groups, this change can also be seen as a demographic trend. These factors and others such as the consequences of digitalization, flexibilization and the increase in project work will change the office organization of the future and thus also the demand for space. It is difficult to estimate the outcome today, but against this background it is conceivable that despite a decline in the number of employees demand for office space might increase at certain locations.

Figure 5: Development of Demand for Office Space in Scenario 1 (Base Scenario) in German A-cities 2020-2030



Source: IRE/BS Immobilienakademie and Berenberg, 2022: Büroimmobilien nach Corona – Ein Szenarienanalyse.

Herein lies one of the opportunities that demographic change presents for investors who are able to respond to changing demand. Vacancies in older properties will increasingly be converted to other types of use. More recent office properties will be upgraded in line with ESG requirements and EU taxonomy. Older buildings that pose a challenge for conversion in terms of structural requirements (clear room height, building depth, window grid) will require creative solutions or will make way for new buildings in the medium term. In terms of design, furnishings and facilities, the buildings will more and more be adapted to the ideas of younger generations. The residential and micro-apartment asset classes will be the main beneficiaries of these conversions.

Overall, demographic trends will definitely change the office market. Therefore, it makes sense to focus on flexibility in new buildings and to include any usage changes in the concept. Mixed-use projects are also likely to be advantageous.

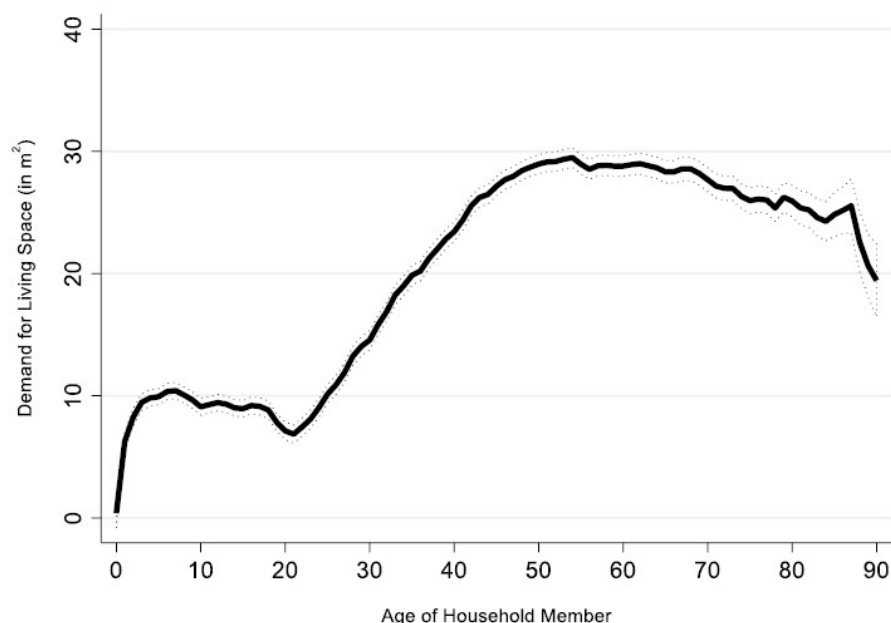
Effects of demographic change on the residential market

As described in the last Market Insight, the attractiveness of A-cities and also some B- and C-cities will remain high in the future despite a shrinking population on the national level. The German housing market of the future will primarily face a growing allocation problem. In the countryside and in less attractive cities, demand for housing will fall and vacancy rates will rise, while elsewhere there will be an increasing housing shortage.

The consequences of demographic change for the housing market can be well illustrated by the market for single- and two-family homes. The baby boomer generation dreamed of owning their own home and had the opportunity to fulfill this dream since the 1960s. Construction activity peaked in West Germany in 1972, when 265,845 single- and two-family homes were built.¹¹ We are far from these figures in today's market, which is characterized by a completely different generation. In 2009, in the wake of the financial crisis the number of completions of single- and two-family homes in western Germany was only 70,597; in 2021, it was at 82,506.¹² The children (and grandchildren) of the baby boomers were drawn and continue to be drawn to the cities. The parents who remained in their own homes contributed to the fact that the average living space per capita in Germany grew steadily. In the cities, on the other hand, prices rose, so that as a side effect, moving there became increasingly financially unattractive for homeowners from the countryside (lock-in effect). As people age, however, their needs change and the demand for age-appropriate housing increases. Because cities offer a better supply of age-appropriate infrastructure, this is often associated with a move to an urban municipality. In the countryside, there is thus an oversupply of houses in the medium term, which are also often in need of energy refurbishment, while in some cities there is a shortage of housing.

The development described is apparent in the demand for space per capita by age, as shown in Figure 6. It is obvious that there will be consequences for the housing market when the size ratios of the age groups change in relation to each other, as it happens due to demographic change. Corresponding changes in demand occur, for example, when older age groups, whose demand for space per capita is decreasing, increase sharply relative to younger age groups. Since supply on the real estate market is typically not very flexible, this leads to corresponding price reactions.

Figure 6: Demand for Living Space by Age (adjusted for Cohort Effects)



Source: Breidenbach, P. et al., 2022: Aging and Real Estate Prices in Germany. Ruhr Economic Papers #953.

¹¹ Statistisches Bundesamt, 2022: Bauen und Wohnen. Baugenehmigungen / Baufertigstellungen. Lange Reihen z.T. ab 1949. https://www.destatis.de/DE/Themen/Branchen-Unternehmen/Bauen/Publikationen/Downloads-Bautaetigkeit/baugenehmigungen-baufertigstellungen-pdf-5311101.pdf?__blob=publicationFile

¹² Cf. *ibid.*

A study examined supply data from over 10,000 German municipalities for the period 2008-2020 and demonstrated that changes in the age structure already have a noticeable impact on price trends.¹³ For the study period 2008-2020, in which the quantitative ratio of older to younger people¹⁴ deteriorated by 3.3 percentage points, the price effect for apartments is 6%. The magnitude of the effect increases accordingly if we look far into the future, where demographic change will have an even greater impact. The authors estimate that by 2050, prices for apartments will fall by an average of 28% for demographic reasons (houses: 16%). Here, the difference between municipalities where aging is particularly rapid and those where it is rather slow is quite high: -87% vs. -11% (apartments). As mentioned above, this is not intended to provide a comprehensive statement on the development of prices in 2050. The results refer exclusively to the influence of demographic change. The many other factors that will determine the markets of the future are not considered here.

Effects of demographic change on the market for micro-apartment concepts

We have already shown above that demographic change presents not only challenges but also opportunities for the real estate markets. Of course, this is especially true for asset classes whose offerings are geared to the needs of specific age groups. Here, it is particularly worth taking a look at micro-apartment concepts which we analyzed in great detail in Market Insight 07/23. Basically, the micro-apartment trend is about reducing the living space and accommodating everything necessary in a small flat. This is particularly popular with young professionals, but also with students and the older generation. They are looking for minimalist and affordable apartments in attractive neighborhoods mainly in the inner cities. At the same time, they don't want to compromise on quality of life. The spectrum of micro-apartment concepts is wide, ranging from so-called student living, business apartments and co-living to serviced apartments and senior housing concepts, the latter of which is tailored to the needs of retired professionals and 'golden agers'.

Figure 7 shows the specifics of the different types of micro-apartment concepts. The small proportion of common areas and services is a characteristic of micro-living. If this proportion is higher, it is usually classified as co-living ('co' stands for community). The common areas include often co-working spaces or gastronomy. Both types typically feature fully furnished apartments with room sizes ranging from 20-40 sqm. The buildings with 50-300 units are in a central, urban location. The target groups for both types are similar. While micro-living operators often focus on business travelers, young professionals and project workers, co-living is aimed at young professionals, contractors, singles and divorced people.

In Germany, student housing is the most common form of micro-apartment concepts. Students live in around 42% of the micro-apartments in the country.¹⁵ They are very well suited as a target group because they do not need a lot of space, are interested in full furnishing and value good infrastructure, which also means proximity to the university or in the city or downtown. The number of rooms usually varies between 150 and 300 flats and the length of stay between 6, 10 or 12 months. The offer of services, facilities, amenities, and community areas is usually high level (see Figure 7). Due to the small apartment size (approx. 18-25 sqm), student housing apartments often appear comparatively inexpensive, even if their rents per square meter are higher. The opportunity to make contacts in the

¹³ Breidenbach, P. et al., 2022: Aging and Real Estate Prices in Germany. Ruhr Economic Papers #953

¹⁴ Calculated as the ratio of over-65s to 15-64 year-olds.

¹⁵ DIWG (Deutsche Immobilien Wirtschafts Gesellschaft), 2022: Mikro Appartements. November 2022.

common areas is also attractive for students. Compared to classic student residences, which are structured similarly, student housing has many advantages because the properties are well supplied with modern equipment and the usual waiting time for an apartment is at micro-apartment facilities much shorter or non-existent.

Figure 7: Types of Micro-Apartment Concepts

ASSET TYPE	STUDENT HOUSING	CO-LIVING	MICRO-LIVING	SENIOR HOUSING		
				INDEPENDENT SENIOR LIVING	ASSISTED LIVING	NURSING HOMES
Typical location	City, Downtown, (close to Universities & Colleges)	City, Downtown	City, Downtown	Outside of a city, Downtown	Outside of a city, Downtown	Outside of a city, Downtown
Average size (units)	150-300	50-300	50-300	Continental Europe: 40-60 UK: 60-70	Continental Europe: 40-60 UK: 60-70	flexible
Target audience	Students	Young professionals Contractors Singles Divorced	Business travelers Young professionals Project workers	Self-sufficient elderly people without needs for care	Self-sufficient elderly people (65+ years) with min or no needs for care (non-dependent on medical assistance)	Seniors with physical and mental impairments
Average unit size (sqm)	18-25	20-40	20-40	40-60	40-60	20-30
Length of stay	6-10-12 months	1-3-12 months	3 months+	5-8 years	5-8 years	2-3 years+
Services	High level	Medium level	Minimum level	Minimum level	High level	Medium level
Facilities	High level	Medium level	Minimum level	Minimum level	Medium level	High level
Amenities	High level	Medium level	Minimum level	Minimum level	High level	Medium level
Community	High level	Medium level	Minimum level	Minimum level	High level	Medium level

Modified presentation from Bonard, 2022: *Rented Residential in Poland – Trends and Prospects. CEE Investment Awards, 27 October 2022.*

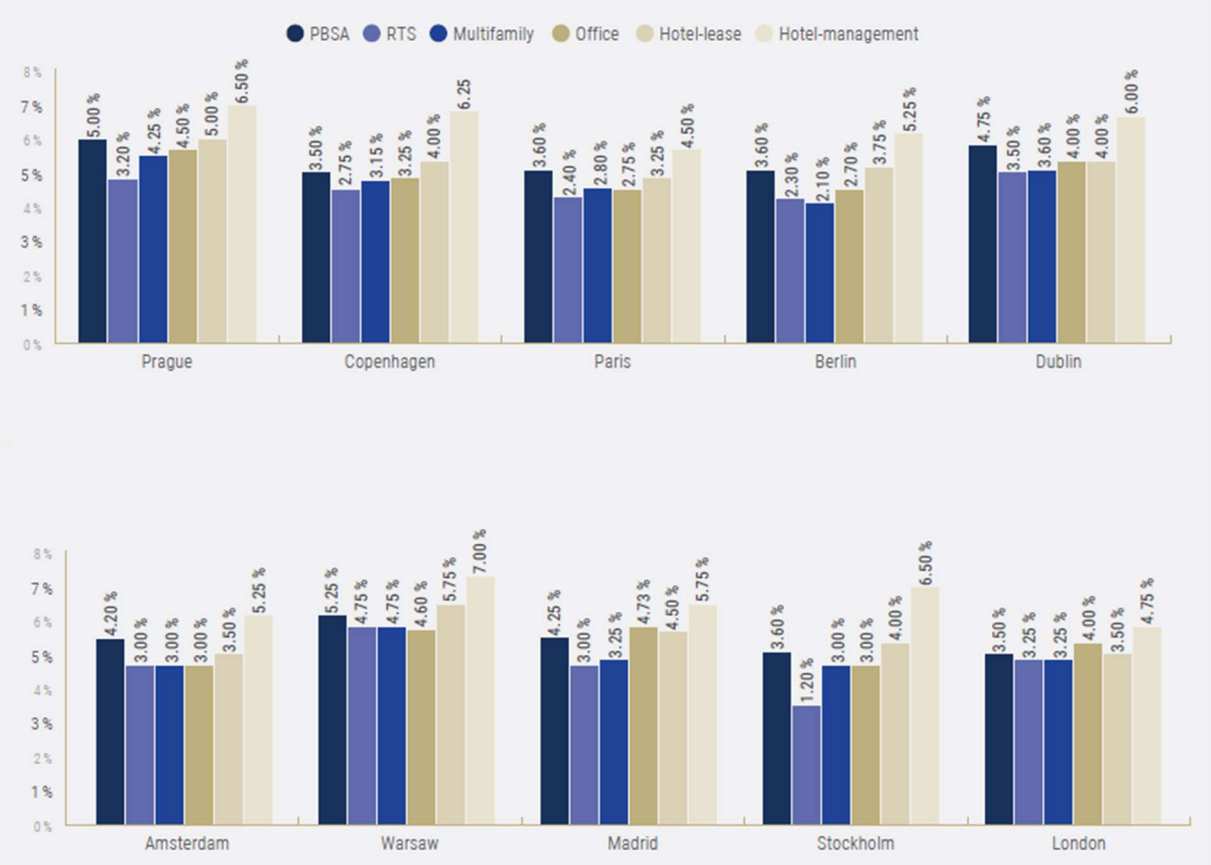
Independent senior living (senior apartments), aimed at older target groups, is still a new concept in Germany and not yet a strong market segment. The demands on the infrastructure and the location are different than in student apartments due to the variety of needs of older people. However, common areas and additional services are also very important here to counteract loneliness in old age. Offers of domestic help or care and freedom from barriers in the buildings are also in demand. Independent senior living is typically located downtown or outside of a city (see Figure 7). The average unit size varies in continental Europe between 40-60 sqm.

In general, the motive of living closer together with other people than in traditional housing and at the same time preserving one's privacy is to be regarded as very important for the attractiveness of micro-apartment concepts. The residents have their own flat and at the same time it is easy for them to socialize in the house and find like-minded people for activities or a get-together. Some operators provide an app which, among many other things, also offers a social media platform that residents can use to communicate. The range of additional services is large and ranges from fitness and yoga rooms to lounges and roof terraces to cinemas.

Figure 8 shows the prime yields of various asset classes in selected European cities in September 2022. Micro-apartment concepts are represented by the segment PBSA (purpose-built student accommodation). As this is the largest segment of the micro-apartment concepts of the German market, it should nevertheless convey the general situation well. Of course, due to the sharp rise of interest rates, prime yields have risen in almost all asset classes since then. However, micro-apartments show noticeably higher yields in all cities than the residential asset classes – also due to operating costs. With the exception of Madrid, they are also higher than in the office sector. This represents the typical picture of a

young asset class that involves a little more effort and risk for investors than the established market segments. In the course of establishment, it can be expected that this difference will decrease in the future.

Figure 8: Prime Yields for Various Asset Classes in European Cities – September 2022



Source: Bonard, 2022: Student Housing Annual Report 2022

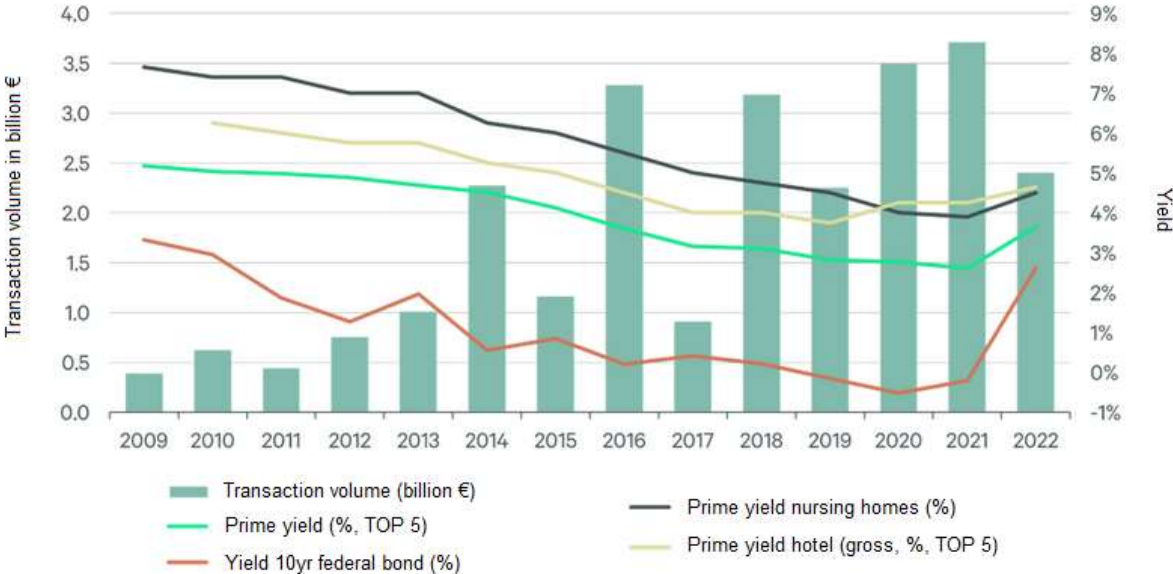
As mentioned, demographic change is making a major contribution to the good prospects for investors in micro-apartment concepts. The growing labor shortage, the struggle of companies for the acquisition of young talents also fuels the demand for micro-apartment concepts. Employers increasingly have to offer attractive housing in major cities in order to be attractive to job candidates. Here, too, the crisis resilience of the asset class becomes apparent. Added to this is the good third-party usability of micro-apartment houses. Here, the municipalities and authorities are called upon to facilitate changes of use from commercial housing to housing. The current and medium-term housing shortage has a strong supportive effect here. On the other hand, the restrictive building approval practices of many cities limit the supply of micro-apartment concepts and reduce the investor’s risk.

Environmental friendliness and ESG compliance are a quality of micro-apartment concepts which sets these apart from many other projects. By reducing per capita emissions, micro-apartment concepts reduce the carbon footprint of their tenants and help the real estate sector meet the emissions targets of the Paris Climate Agreement. Micro-apartment concepts also make a valuable contribution in terms of the 'S' in ESG. This is an aspect that is often overlooked. They bring people from different nations and races together and create contacts and connections. The social relations create happiness and satisfaction, help overcome racism and sexism, have a positive effect on health and thus also on the sickness rate of the employees.

Effects of demographic change on the market for senior citizens properties

Another asset class that is mainly targeted at specific age groups and whose prospects are therefore strongly influenced by demographic change is care properties. Figure 9 shows that the market for care properties has been characterized by increased investor interest over the past decade. After reaching a record high in 2021, in 2022, the transaction volume declined by 35% to €2.4 billion due to the current crisis and increasing insolvencies in this sector. Nursing homes remained the most important segment with a share of 50% (not shown in graph). The continuously lower yields are still noticeably above the level of the office market. The falling yields up to 2021 are a reflection of the changing risk assessment of the asset class by investors and the resulting increase in demand. Behind this was the establishment of increasingly professionalized operators and continuous cash flows, which have also shown crisis resilience in the Covid-19 pandemic.¹⁶ CBRE does not anticipate any lasting loss of momentum in transactions and is expecting the market to recover again in the current year 2023, as the fundamentals and demand expectations are positive due to demographic change.¹⁷ However, we think this could take a little longer.

Figure 9: Investment Transaction Volume Care Properties in Germany 2009-2022



Source: CBRE, 2023: Gesundheitsimmobilieninvestmentmarkt Deutschland mit verhaltenem Transaktionsgeschehen. <https://news.cbre.de/gesundheitsimmobilieninvestmentmarkt-deutschland-mit-verhaltenem-transaktionsgeschehen/>

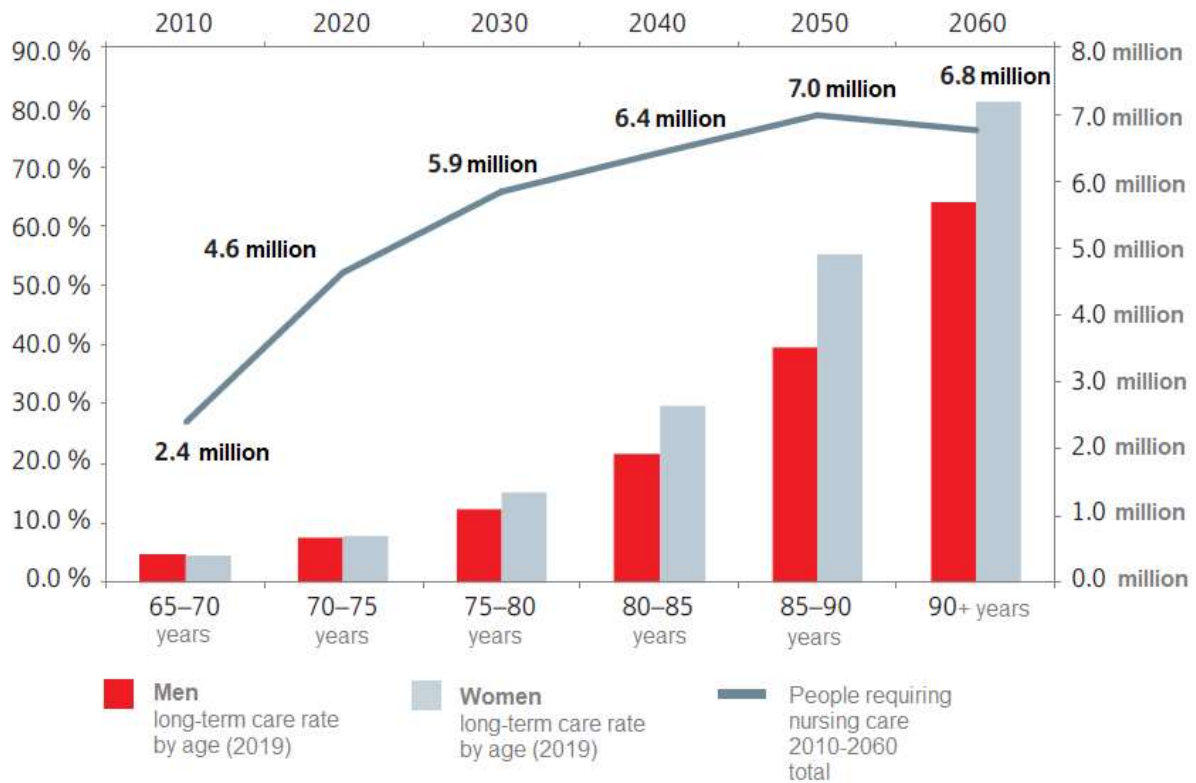
Demographic change is indeed making a major contribution to the positive outlook for the asset class. This is particularly true for nursing homes, as the number of people requiring care is likely to rise in the future. Figure 10 shows how strongly the long-term care rate, i.e. the proportion of people requiring full- or half-day care, increases with age. The aging of the population means that more and more people will be dependent on professional care. Up to 2050, their number will increase by more than 50% (see Figure 10). However, this will mark

¹⁶ PWC, 2021: Der Markt für Seniorenimmobilien in Deutschland. Eine PwC-Studie zu aktuellen Trends und Entwicklungen.

¹⁷ CBRE, 2023: Gesundheitsimmobilieninvestmentmarkt Deutschland mit verhaltenem Transaktionsgeschehen. <https://news.cbre.de/gesundheitsimmobilieninvestmentmarkt-deutschland-mit-verhaltenem-transaktionsgeschehen/>

a peak. The numbers will then start to fall slightly, as the low-birth-rate cohorts enter old age. The current long-term care projection of the Federal Statistical Office of Germany sees only slight changes from 2055 and thus a stabilization at a high level.¹⁸

Figure 10: People Requiring Nursing Care and Long-Term Care Rate in Germany 2010-2060



Source: PWC, 2021: *Der Markt für Seniorenimmobilien in Deutschland. Eine PwC-Studie zu aktuellen Trends und Entwicklungen*

In the past, however, legislators have frequently defined the term "need for care" more broadly in reforms, thus contributing to an increase in the care rate. As a result, the market for care properties could continue to develop solidly in the distant future despite a certain easing of the situation for demographic reasons. In any case, it makes sense from an investor's point of view to anticipate any uncertainties. It is advisable to create flexible concepts and to be prepared for possible changes of use. It may also be appropriate to consider the recyclability of the materials used in construction. This would additionally already result in advantages through an improvement of ESG conformity.

Conclusion

Demographic change will significantly alter German society and thus also the economy in the coming decades. This will not leave the real estate markets untouched. Many consequences are already being felt today and will continue into the future unless countermeasures are taken. For example, the construction industry is facing a recruitment problem that has only been somewhat mitigated in the short term by the current crisis. As soon as more orders are received again, the shortage of personnel will become a serious obstacle to growth.

¹⁸ Statistisches Bundesamt, 2023: Pflegevorausberechnung: 1,8 Millionen mehr Pflegebedürftige bis zum Jahr 2055 zu erwarten. https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/03/PD23_124_12.html

Companies are therefore still reluctant to make redundancies at present, despite falling demand, but this can only continue for a limited time. Realistically, the general shortage of personnel can only be remedied with an immigration policy consistently geared to the needs of the economy, as has been successfully practiced in the past in other industrialized countries such as Switzerland or Canada.

Although demand in the office markets of Germany's A-cities is still expected to rise in the coming years unless a strong recession darkens the picture, it is foreseeable that demographic trends will also be felt there in the 2030s. However, precise forecasts are quite difficult because demand for office space is influenced by very different factors. For example, even if the number of office jobs declines, it is conceivable that the demand for space will rise if the demand for community spaces in office buildings increases. This is because the needs and beliefs of the younger generation of workers will increasingly shape the design of offices. Demand for space in sustainably designed buildings with ESG compliance will continue to grow. Similarly, technology-related industries that benefit from digitization will demand more office space. Changes of use of office buildings to mainly residential and micro-apartment concepts will reduce the office space supply and therefore will have a strengthening effect on the office markets. Overall, prime rents in the A-cities are likely to develop quite stably. In older properties, however, vacancies will increase. Here, opportunities for ESG refurbishment must be pursued to maintain or even increase rent levels and reduce vacancies.

In the future, the housing market will be increasingly shaped by the dichotomy of strong demand in cities and an oversupply in rural areas - a trend reinforced by demographic change. Micro-apartment concepts offer a wide range of opportunities to create living space in sought-after urban locations, whether through new buildings or through conversions of office buildings or hotels. Municipalities and authorities are called upon to facilitate this by their approval policies and remove legal barriers. On the other hand, the restrictive building practices of many cities limit the supply of micro-apartment concepts and reduce the investor's risk. A quality of micro-apartment concepts which sets these apart from many other projects is environmental friendliness and ESG compliance. By reducing per capita emissions, micro-apartment concepts reduce the carbon footprint of their tenants and help the real estate sector meet the emissions targets of the Paris Climate Agreement. Last but not least, micro-apartment concepts favor cultural and social interchange and diversity and also make a valuable contribution in terms of the 'S' in ESG.

The market for care properties also offers opportunities for investors to profit from demographic change. The increased interest in the recent past and the professionalization of operators testify to the fact that this is already the case today. The number of people in need of care in Germany will continue to rise at least until 2055, before consolidation can be expected.

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