



Returns from residential real estate

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Red and orange predominate

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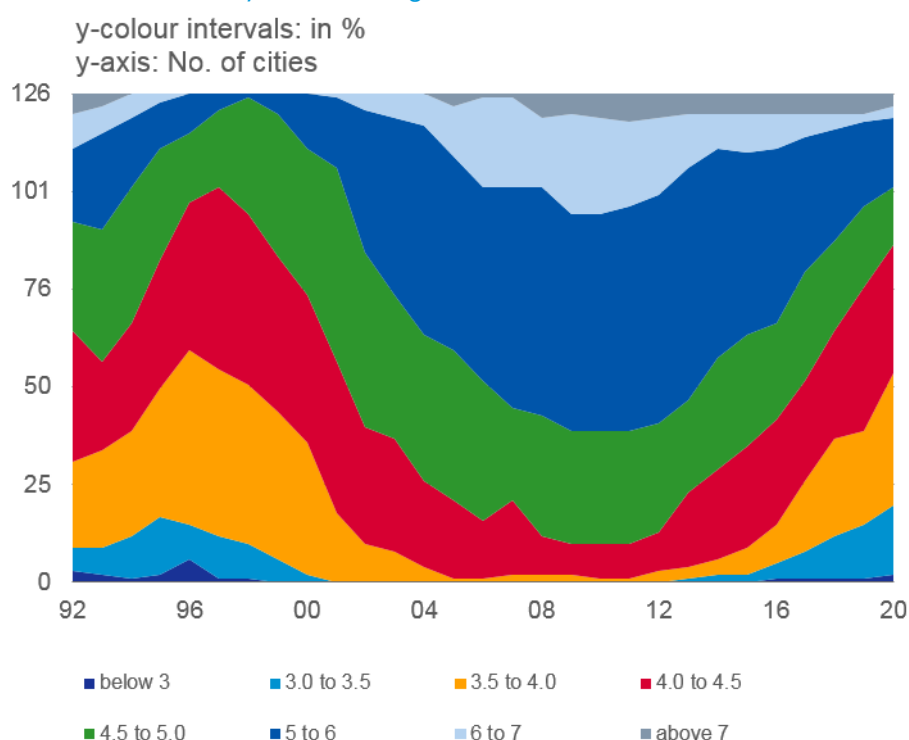
The COVID-19 crisis has intensified the lack of profitable low-risk investments, which is why numerous investors probably regard the German residential market as an attractive alternative to the bond markets. Rental returns have been trending downwards for ten years now, and the development looks set to continue until the spread between rental returns and low-risk bond yields has narrowed significantly further.

Despite the coronavirus crisis, rents have continued their uptrend in 2020 according to the latest bulwiengesa data. Rents for re-let properties were up by about 2% yoy in the 126 cities we cover. The increase considerably exceeded consumer price inflation (0.5%) and rent inflation (1.4%). This outcome is remarkable, particularly in view of the fact that Germany is currently experiencing the most serious economic crisis since World War II and that regulatory efforts have been taken to keep a lid on rents. Even in Berlin, rents rose by almost 2%, despite regulatory headwinds. Prices for existing properties were up nearly 6% yoy in 2020. As a result, average rental returns declined again, to 4.3% p.a. Overall, rental returns were down in 113 out of 126 cities. These figures confirm our forecasts of April 2020; back then, we expected prices to rise and rental returns to decline. Red and orange are therefore the predominant colours in our chart on rental returns. They represent rental returns of 3.5%-4.0% and 4.0%-4.5%, respectively. All in all, rental returns hover around these values in 67 out of 126 cities. In metropolitan areas (A cities), rental returns are even lower, at 3.2%. Rental returns are particularly high in the 25 east German cities, at an average of 5.0% (west German cities: 4.1%).



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1992-2020: Rental yields, existing



Definition: Ratio of annual rent (reletting) to apartment prices ex transaction costs, maintenance, tax and mortgage.

Sources: bulwiengesa, Deutsche Bank Research

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