



# Real I.S. Research Realometer



February 2023

Real I.S. AG Research & Investment Strategy

# Real I.S. Research

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## 01 | Results of the country and market analyses

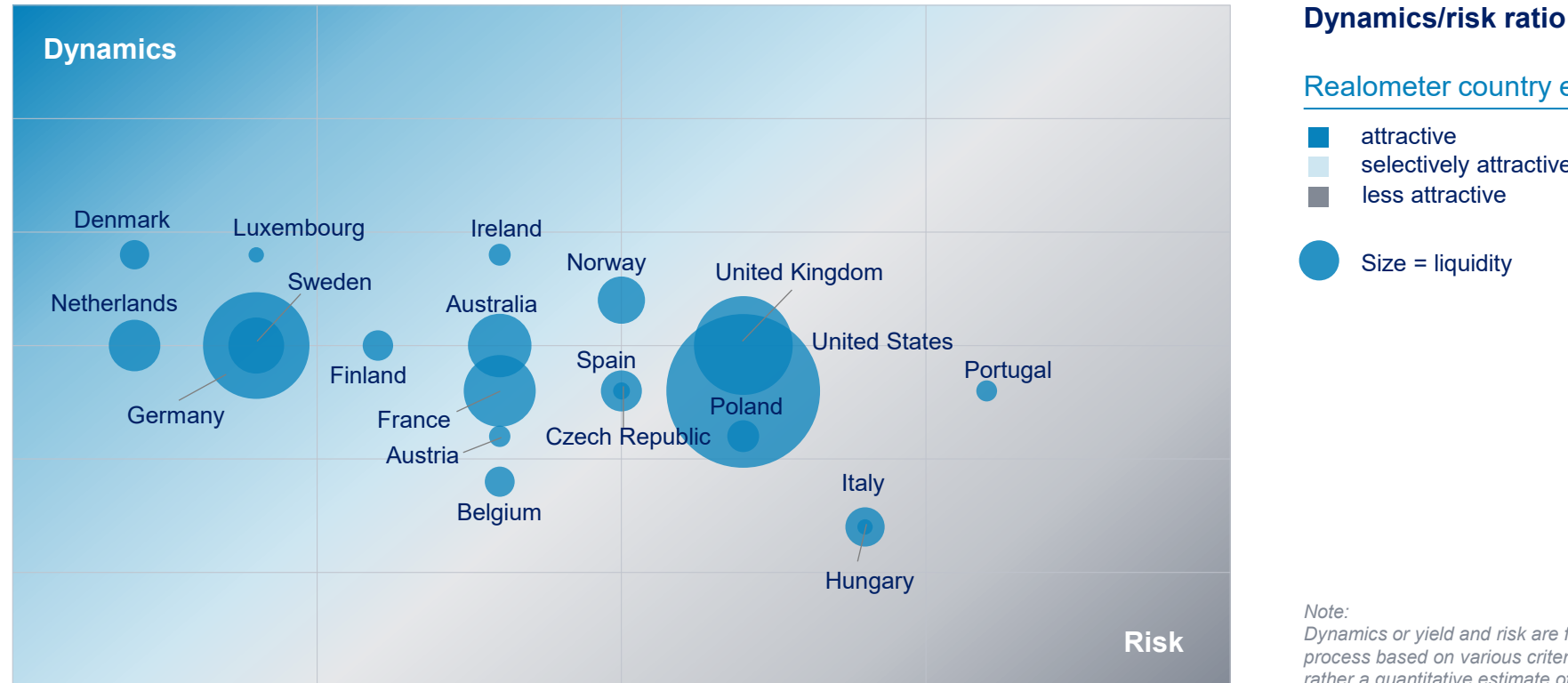


# Key-Findings: Fundamental situation remains favourable, although high financing costs weigh on investment markets



High uncertainty and rising interest rates continue to dampen investment markets in early 2023. Nevertheless, many real estate markets in the euro area continue to offer attractive investment opportunities. Rising consumer prices often lead to rising returns on commercial real estate due to indexed lease agreements.

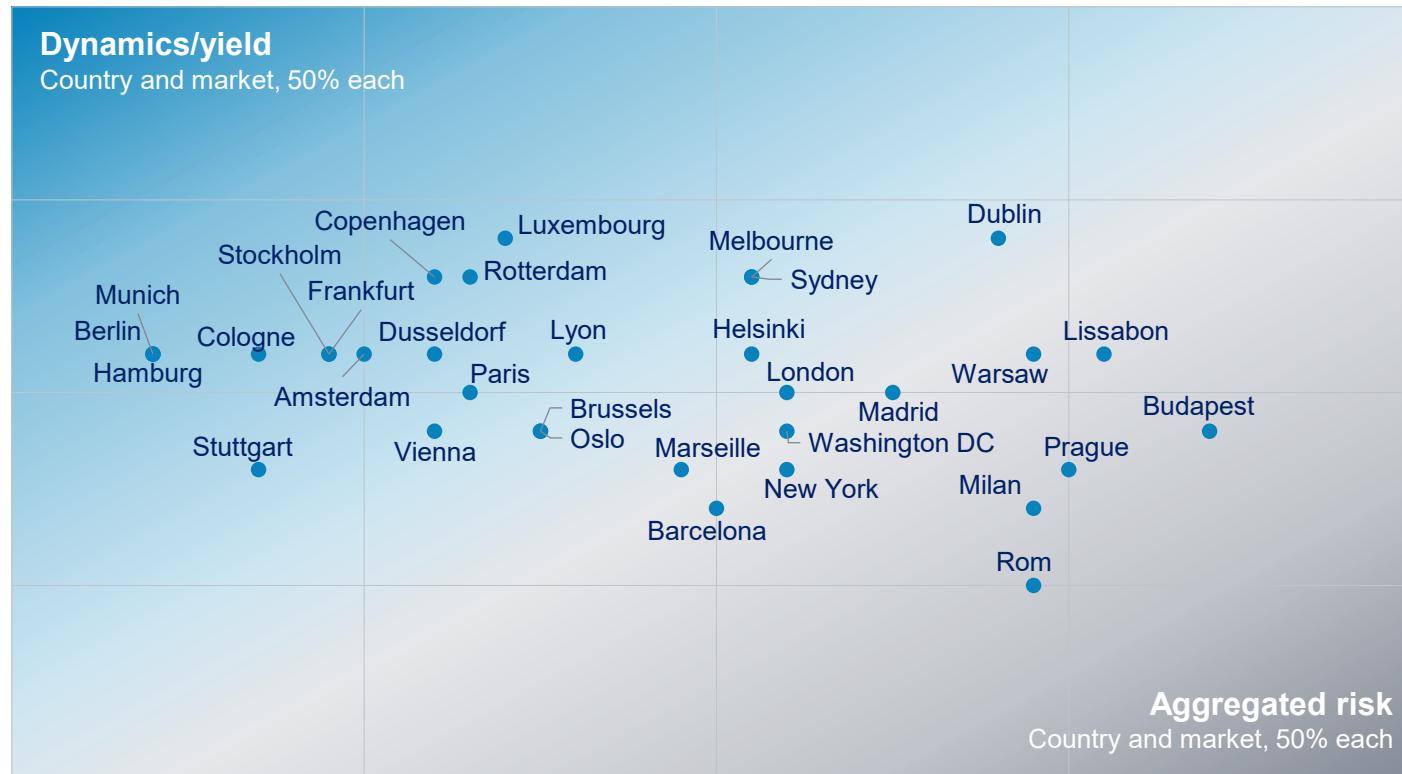
# Country analysis: Growth slowdown in 2023 and weak economic outlook in 2024 drags rating down slightly compared to 2022



In addition to the weaker dynamics rating due to the slowdown in economic activity, climate and ESG sustainability risks have recently increased slightly. In the overall rating, all countries have deteriorated compared to September 2022. The Netherlands, Ireland, Luxembourg and the Czech Republic remained at almost the same level.

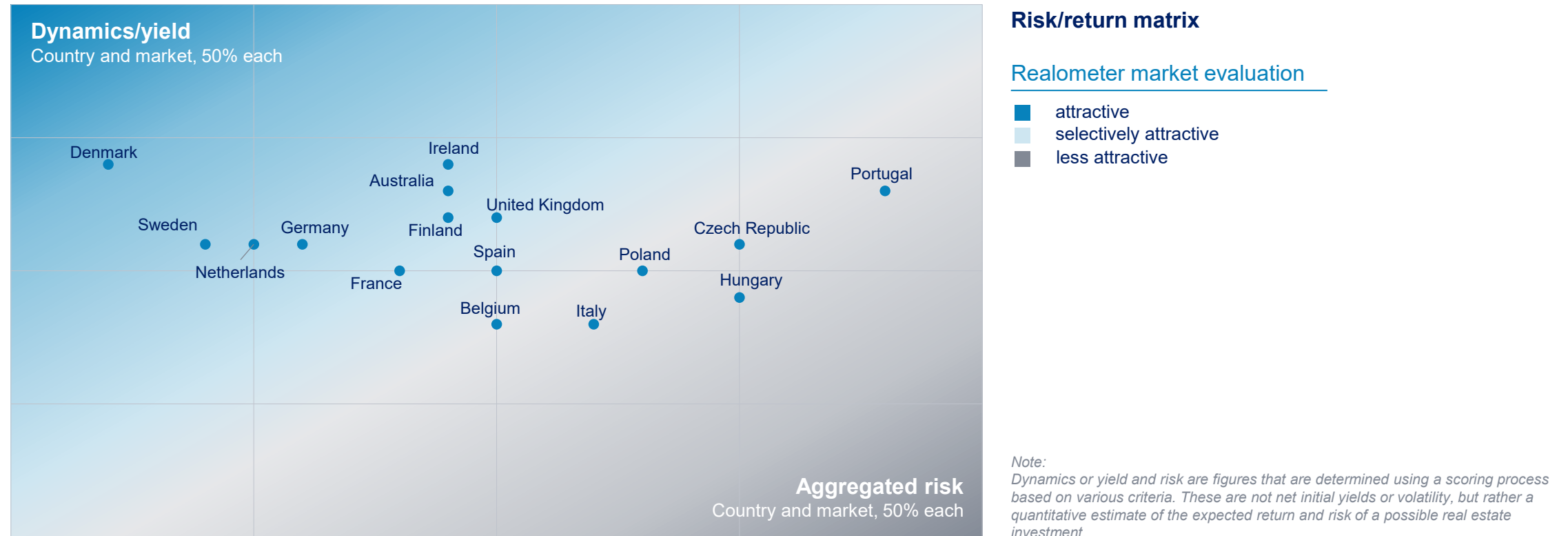


# Office global: Yield gap vs. bonds continues to decline, but very little increase in vacancies and further rental growth



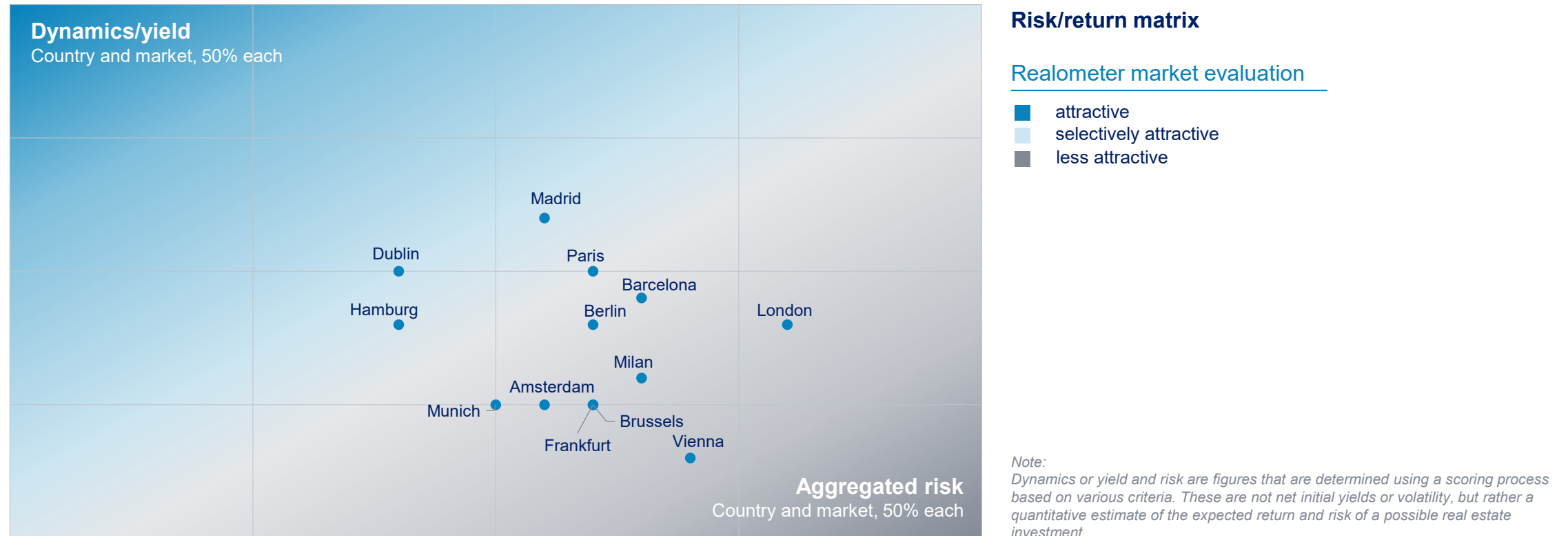
The yield gap (spread) of office properties compared to bonds has narrowed again since September 2022, the initial yields of office properties rose further by around 20 basis points. Despite the weak economic outlook, rents should continue to rise moderately. In the overall rating (incl. country), 33 of 47 office markets have deteriorated compared to the rating in September 2022, 12 have remained the same, and two markets (Rotterdam and Luxembourg) have improved.

# Logistics: Economic slowdown weighs on evaluations; nevertheless, double-digit rental growth forecasts until 2026 and higher yields are convincing



Yields have risen by almost 30 basis points, the yield gap to bonds has narrowed significantly. Rental price forecasts assume double-digit percentage growth in all locations until 2026 (with the exception of Hungary). The overall result (incl. country rating) has deteriorated, despite a better yield rating. 10 out of 16 locations have deteriorated slightly, only one location, Ireland, has improved.

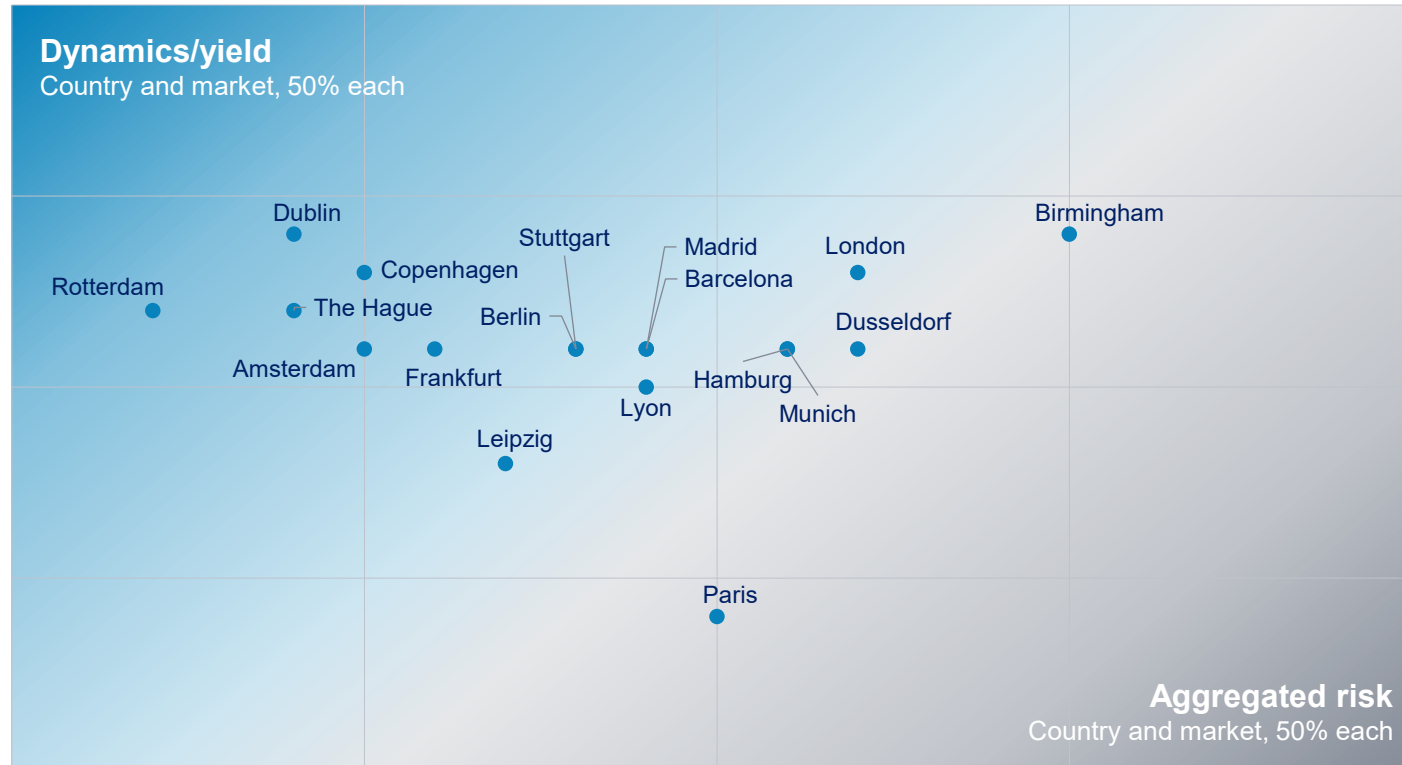
# Hotel: Despite further progress in the recovery, the occupancy rates and room revenues of 2019 will not yet be achieved everywhere



The key figures for the evaluation of the hotel markets were adjusted. Due to the strong declines in 2020, percentage change rates are not very meaningful. Therefore, reference is now made to the pre-crisis level from 2019. Although overnight stays have almost returned to the levels of 2019, room revenues across Europe are still around 12 % below the pre-crisis level. Nevertheless, some modern hotel concepts with strong operators are very well booked and already profitable again.



# Residential: Rising interest rates and high construction costs slows residential construction; forecasts of further increases in residential rents



*Note:*  
Dynamics or yield and risk are figures that are determined using a scoring process based on various criteria. These are not net initial yields or volatility, but rather a quantitative estimate of the expected return and risk of a possible real estate investment.



The yield gap to bonds narrowed significantly due to the rise in interest rates. The number of residential transactions declined. Rental prices should continue to increase in the coming years. The best-rated housing markets include the major cities in the Netherlands, as well as Copenhagen and Dublin. In Germany, Frankfurt, Berlin and Stuttgart rank first.



## 02 | Scoring methodology



# Realometer scoring methodology – country level

## Criteria, weightings and indicators

### Macro level (country)

	Criteria	Weighting	Weighting %	Indicator	
<b>Dynamics</b>	1	Competitiveness	medium	10%	Global Competitiveness Index of World Economic Forum
	2	GDP forecast	high	20%	Average Consensus Economics GDP forecast current year and next year
	3	Real estate market conditions	medium	10%	Qualitative analysis, e.g. lease contract legislation, ancillary purchase costs
	4	ESG: sustainability	medium	10%	Sustainability rating of the country based on the Global Sustainability Competitiveness Index by SolAbility
		<b>Total dynamics</b>		<b>50%</b>	
<b>Risk</b>	5	Political and financial stability	high	20%	S&P Rating
	6	Currency risk	medium	10%	Maximum negative change of exchange rates within three years from 1999 to today, daily exchange rate data (rolling time slots)
	7	Real estate market transparency	medium	10%	JLL Real Estate Transparency Index
	8	ESG: climate risk	medium	10%	Climate Risk Index based on the World Risk Index of the Ruhr University Bochum, Germany
		<b>Total risk</b>		<b>50%</b>	
<b>Total country</b>			<b>100%</b>		

# Realometer scoring methodology – office real estate

## Criteria, weightings and indicators

### Office real estate market (location)

	Criteria	Weighting	Weighting %	Indicator	
<b>Return</b>	1	Net prime yield	medium	10%	Net prime yield (based on most recent data available)
	2	Rental price changes	high	30%	Rental price changes in percent, current vs forecast next 4-5 years
	3	Yield spread	medium	10%	Net prime yield minus 10-year government bond
		<b>Total return</b>		<b>50%</b>	
<b>Risk</b>	4	Size of market	medium	15%	Office stock (in million sqm)
	5	Vacancy rate	high	25%	Vacancy rate in percent (based on most recent data available)
	6	Liquidity (Exit)	medium	10%	Annual volume of office real estate transactions, in EUR billion (country level)
		<b>Total risk</b>		<b>50%</b>	
<b>Total real estate market total</b>			<b>100%</b>		

# Realometer scoring methodology – logistics real estate

## Criteria, weightings and indicators

### Logistics real estate market (country)

	Criteria	Weighting	Weighting %	Indicator	
<b>Return</b>	1	Net prime yield	medium	10%	Net prime yield (based on most recent data available)
	2	Rental price changes	high	30%	Rental price changes in percent current vs forecast next 4-5 years
	3	Yield spread	medium	10%	Net prime yields minus 10-year government bond
		<b>Total return</b>		<b>50%</b>	
<b>Risk</b>	4	Logistics Performance Index	high	20%	World Bank Logistics Performance Index
	5	Industrial production volume	high	20%	Change of average industrial production volume in the last three quarters according to OECD
	6	Liquidity (Exit)	medium	10%	Annual volume of logistics real estate transactions, in EUR billion (country level)
		<b>Total risk</b>		<b>50%</b>	
<b>Total real estate market</b>			<b>100%</b>		



# Realometer scoring methodology – hotel real estate

## Criteria, weightings and indicators

### Hotel real estate market (location)

	Criteria	Weighting	Weighting %	Indicator	
<b>Return</b>	1	Net prime yield	medium	10%	Net prime yield (based on most recent data available); hotel type of business lease/rental contract (no management contract or hotel building without contractual obligation)
	2	Change in RevPAR	high	30%	Change in RevPAR (revenue per available room) in percent, current vs forecast next 4-5 years*
	3	Yield spread	medium	10%	Net prime yield minus 10-year government bond
	<b>Total return</b>			<b>50%</b>	
<b>Risk</b>	4	Demand: trend in overnight stays	high	20%	Change in overnight stays expressed as an average of the last three years*
	5	Acceptance of offer, change in occupancy rate	high	20%	Average occupancy rate in the last 12 months relative to year-earlier average`*`
	6	Liquidity (Exit)	medium	10%	Annual volume of commercial real estate transactions, in EUR billion (country level)
	<b>Total risk</b>			<b>50%</b>	
<b>Total Real estate market</b>			<b>100%</b>		

\*Due to the strong declines in 2020 during the lockdown phases of the Corona pandemic and the correspondingly large percentage changes in the following year or years, the evaluation of annual rates of change may not be meaningful. Other meaningful key figures are then determined, e.g. reference is made to the level before the pandemic.

# Realometer scoring methodology – residential real estate

## Criteria, weightings and indicators

### Residential real estate market (location)

	Criteria	Weighting	Weighting %	Indicator	
<b>Return</b>	1	Net prime yield	medium	10%	Net prime yield (based on most recent data available)
	2	Rental price changes	high	30%	Rental price changes in percent, current vs mid-term forecast (5 years)
	3	Yield spread	medium	10%	Net prime yields minus 10-year government bond
	<b>Total return</b>			<b>50%</b>	
<b>Risk</b>	4	Population growth	high	20%	Forecast population growth over the next 5 years
	5	Construction activity vs requirements	high	20%	Net growth in number of units in relation to change in number of households over the last five years (interpretation; excess in demand, relating to values bigger than 1)
	6	Liquidity (Exit)	medium	10%	Annual volume of institutional real estate transactions on the local housing market, in EUR billion
	<b>Total risk</b>			<b>50%</b>	
<b>Total real estate market</b>			<b>100%</b>		



## 03 | Contact

If you have any questions, please do not hesitate to contact us:

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