Real Estate Monitor

A Reconnected Market: German Real Estate Transitions From Repricing to an Income-driven Cycle

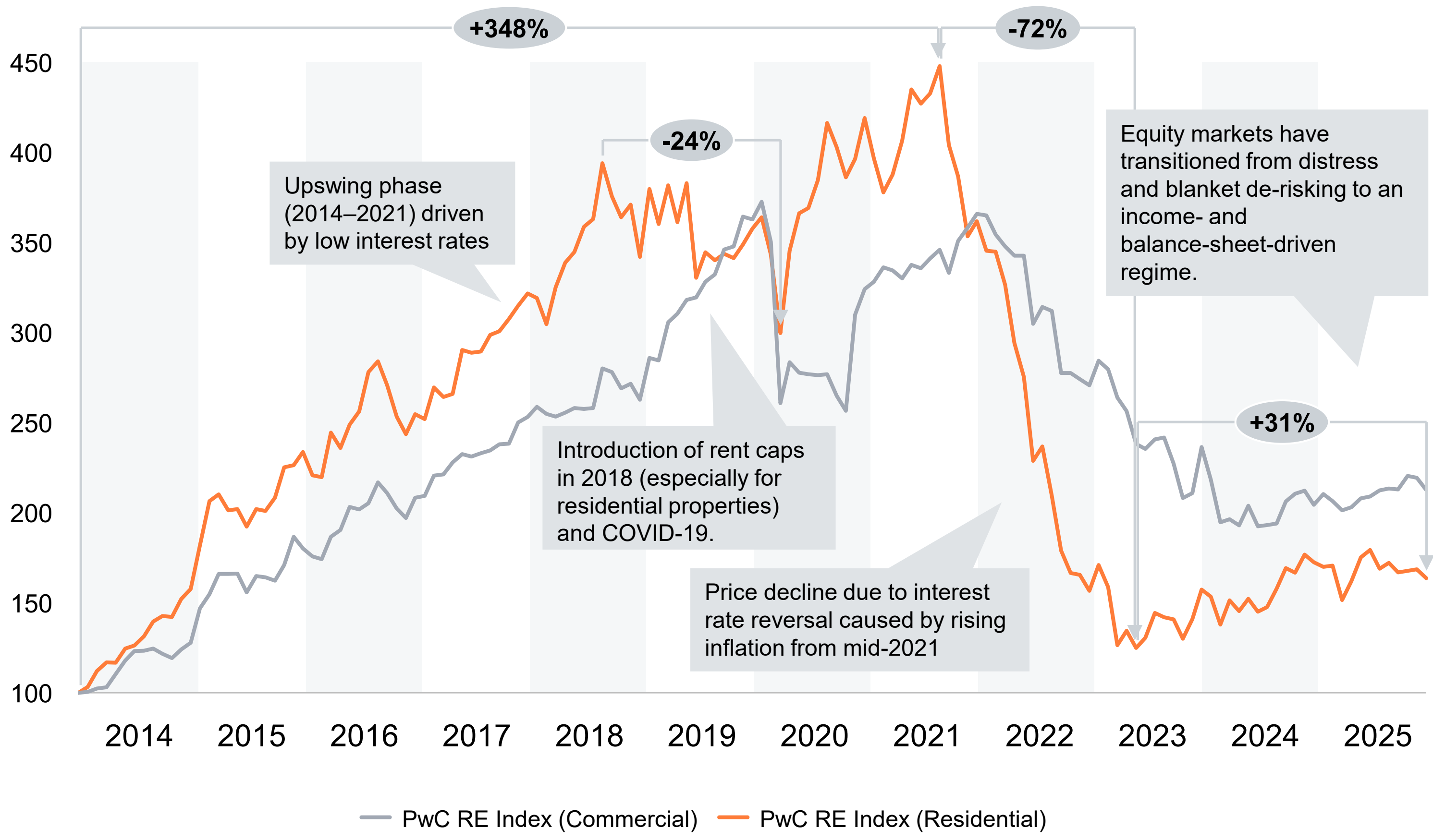
Deals | Valuation, Modeling & Analytics
January 2026 | Q4-2025

Content

PwC Real Estate Indices: Cash Flow Quality Defines the New Cycle

- By the turn of the year, the PwC indices show that the market is no longer driven by distress, liquidity stress or indiscriminate de-risking. Instead, it has entered a regime where capital is allocated based on income robustness, balance sheet resilience and refinancing capacity.
- **Residential Sector** stands out as the clear beneficiary of this transition. Strong tenant demand, low vacancy and structurally constrained supply in A cities continue to support stable and growing cash flows. As refinancing conditions have stabilized and credit spreads have narrowed, residential platforms are increasingly being valued as long duration income assets rather than as leveraged bond substitutes.
- **Commercial Real Estate** has also stabilized, but at a fundamentally lower confidence level. The commercial index has stopped falling, reflecting the easing of systemic financial stress, yet it has not entered a genuine re-rating phase. Office heavy portfolios in particular remain exposed to re-letting risk, elevated incentives – due to structurally decreased demand – and capital expenditure requirements. As a result, equity markets continue to discount uncertainty in earnings and refinancing, even as enterprise values and operating multiples remain comparatively stable.
- **At the start of 2026, Germany is selective-investable, not broadly recovering. The pace and shape of any recovery will be determined by how the market digests refinancing needs, rate dynamics and the broader economy; capital remains highly execution- and balance-sheet-driven.**

Sources: S&P Market Intelligence, PwC Real Estate Institute

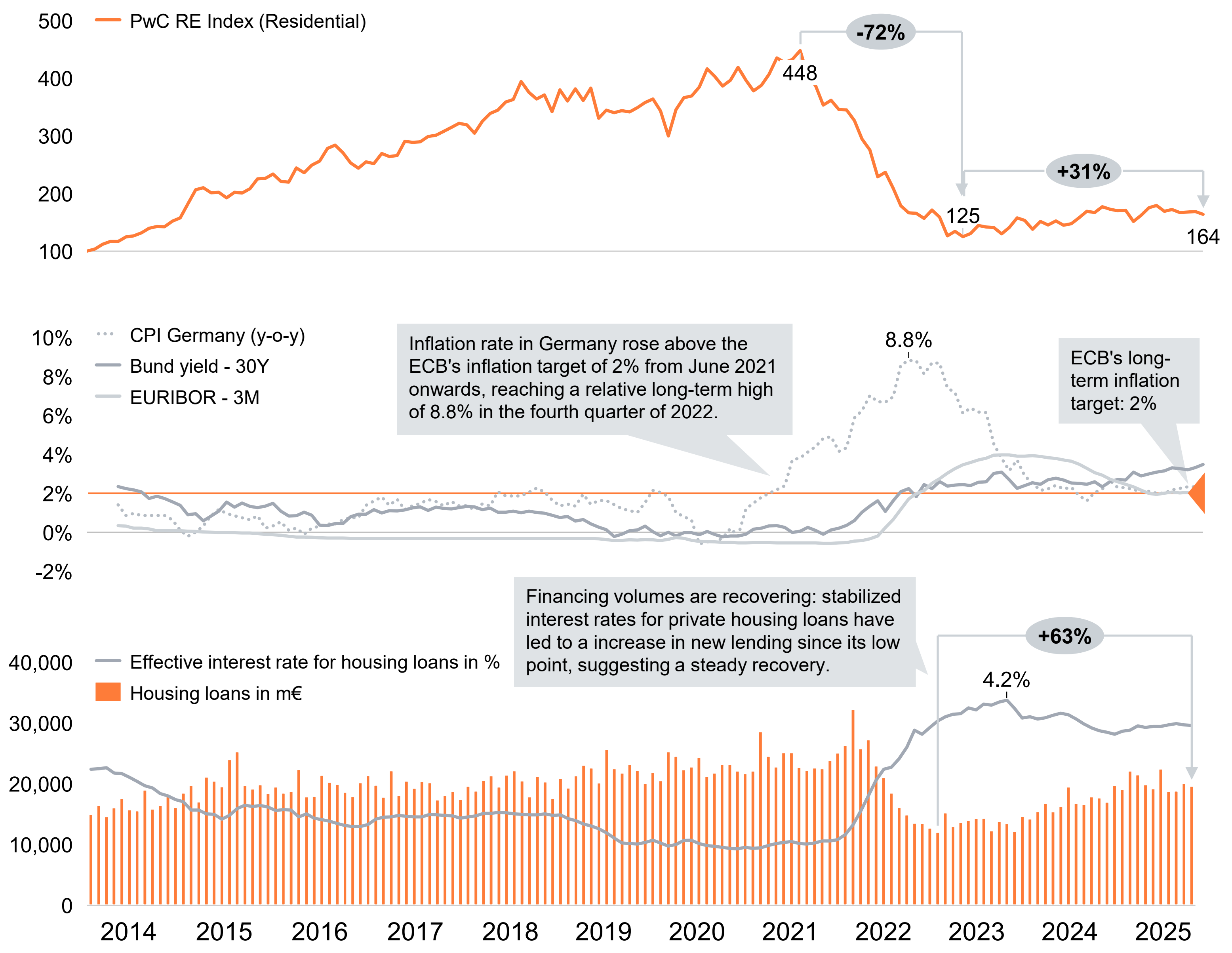


Performance Dec-25	YTD	1 month	3 months	6 months	1 year	2 years	3 years	5 years
Commercial	4.0%	-3.1%	-0.2%	1.7%	4.0%	-10.1%	-21.5%	-34.4%
Residential	-5.1%	-3.0%	-1.9%	-8.8%	-5.1%	4.0%	4.4%	-61.0%

*The PwC Real Estate Indices are equally-weighted total return indices comprising listed German residential and commercial real estate companies. They are based on monthly closing prices, taking into account reinvested dividends, and serve to reflect capital market-based price and risk signals. The indices reflect the behavior of the equity markets and are not to be equated with transaction or expert real estate valuations.

German Residential Real Estate Has Entered a Phase of Cyclical Stabilization Backed Up by Cash Flow Fundamentals

- The capital market reset seems to be largely complete. Valuations reflect structurally higher rates while rental income benefits from persistent undersupply and low vacancy. Interest rates in the 3.5–4.0% range are historically average, the market has recalibrated to these levels rather than waiting for financial engineering.
- What we are seeing today is not a fragile rebound, but the emergence of a new equilibrium. Valuation levels now reflect a structurally higher interest rate environment, while rental income remains supported by persistent housing shortages and strong tenant demand.
- The recovery in mortgage origination confirms that households and investors have adapted to the new interest rate level. Financing volumes are rising again, not because credit has become cheap, but because the market has adapted to higher rates.
- Importantly, this stabilization is being driven by cash flow robustness rather than financial engineering. Rent growth, low vacancy and limited new supply are once again the dominant forces shaping investor expectations. Selective retrofit-led value creation will likely remain a key driver in 2026, as supply stays constrained and rents underpin total returns.
- As a result, residential real estate has reestablished itself as the most resilient segment of the German property market, attracting capital at a time when many other asset classes remain under structural pressure.

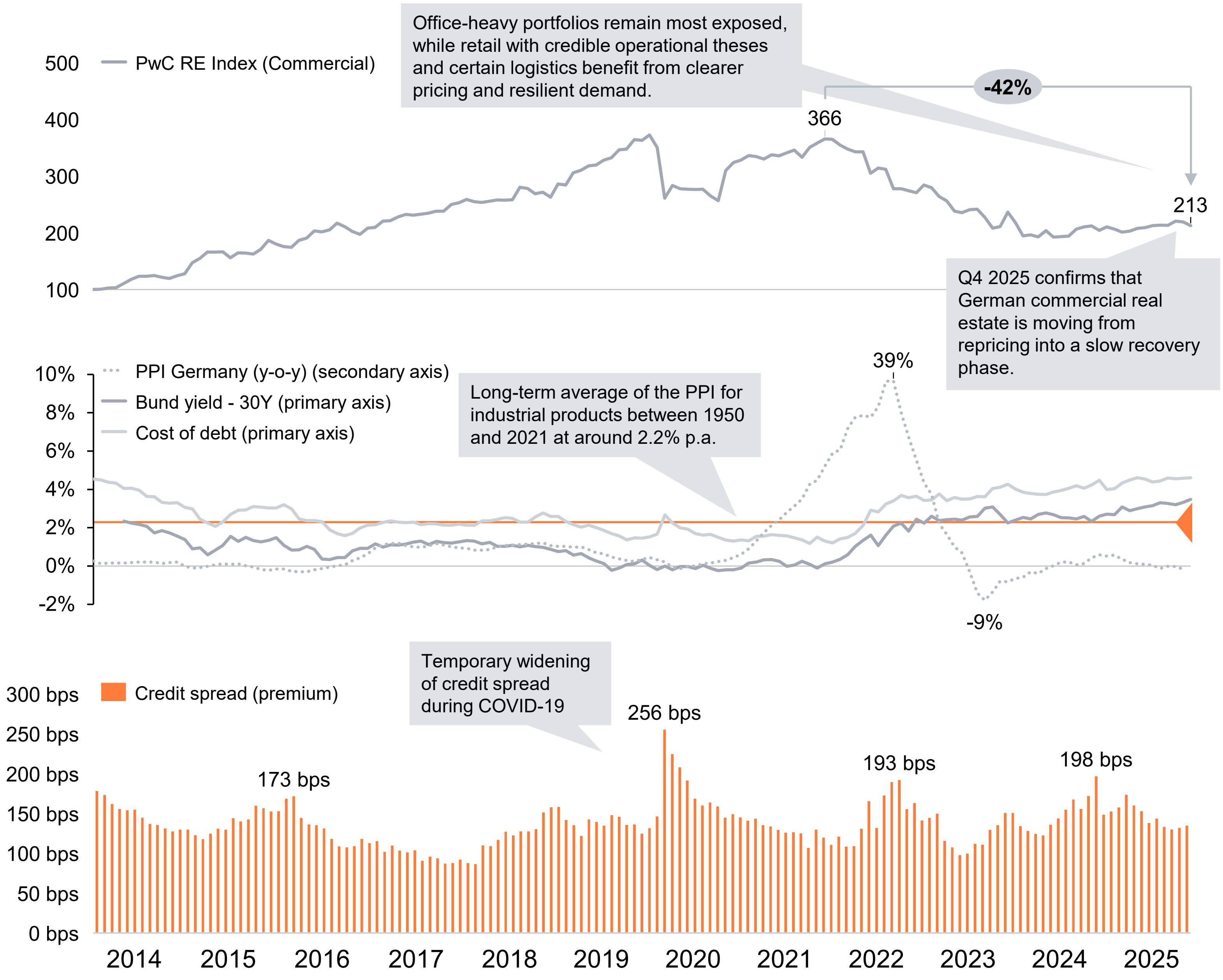


Sources: S&P Market Intelligence, Destatis, Deutsche Bundesbank, PwC Real Estate Institute

German Commercial Real Estate Remains in a Prolonged Recovery Phase as Capital Constraints Limit Recovery

- In Q4 2025, listed German commercial real estate remained in a consolidation phase rather than a broad-based recovery. Equity pricing has stopped deteriorating materially, but it is still anchored well below prior cycle peaks, signaling that investors continue to apply a fundamentally higher risk discount to commercial cash flows.
- Compared with Q3 2025, the key change is an emerging shift from negative momentum to stabilization. Credit spreads appear range bound rather than tightening decisively, and the index trades sideways. This tells us that the market is no longer pricing an acute shock scenario, but it is also not yet willing to price in a sustained improvement in earnings visibility.
- The charts point to two binding constraints: 1) long-term rates have not moved lower in a way that would mechanically re-rate the sector; 2) the credit risk premium demanded from commercial issuers remains elevated, which keeps refinancing conditions tight and reinforces investor caution. In other words, the cost of capital is no longer rising, but it is still high enough to limit the upside.
- The implication for the way forward is clear. A sustainable recovery in commercial real estate equities will require evidence that operational performance can absorb the higher funding burden. For office heavy portfolios, this means stabilizing vacancy, firmer leasing outcomes, and better clarity on capex requirements. Until those signs emerge, capital will stay selective, favoring assets with resilient tenant demand, shorter execution risk, and credible repositioning pathways.

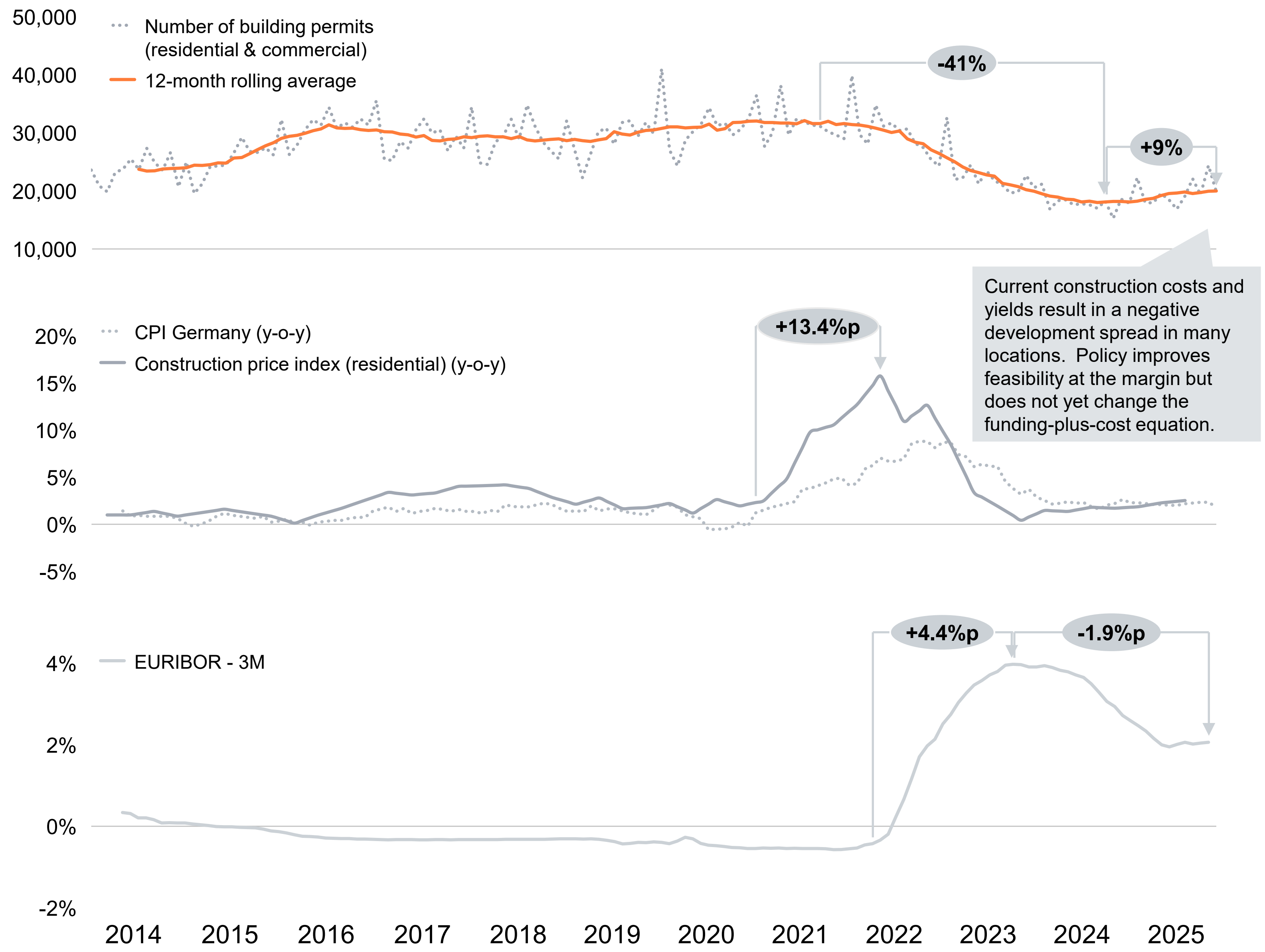
Sources: S&P Market Intelligence, Destatis, PwC Real Estate Institute



Policy Measures Aim to Revive Housing Supply But Structural Constraints Will Keep New Construction Limited Into 2026

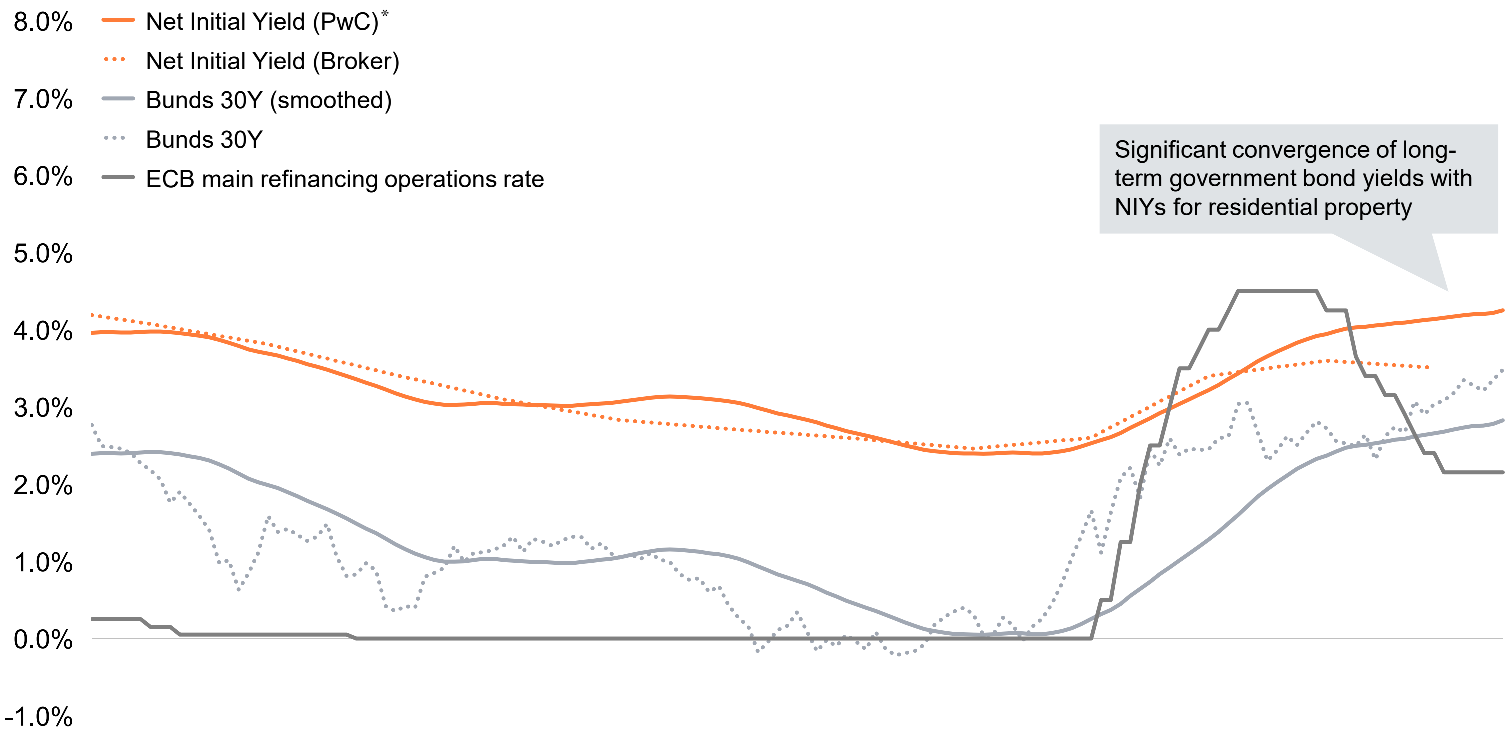
- Recent policy initiatives send a clear sign but do not yet change market fundamentals. Degressive depreciation, the “Bau Turbo” and simplified building standards improve project economics at the margin level, but they do not offset the combined impact of high construction costs, elevated financing rates and planning complexity.
- The binding constraint remains feasibility, not political intent. Even with tax incentives, many residential developments remain economically unattractive at current cost and yield levels. As a result, the recovery in building permits is likely to be gradual rather than pronounced.
- Execution risk sits primarily at the municipal level. Accelerated planning processes can shorten timelines, but outcomes will vary significantly by region depending on administrative capacity, infrastructure readiness and local political support.
- Cost reduction is the most critical lever, but its impact will be delayed. Simplified building standards have the potential to structurally lower construction costs.
- The near-term effect is supportive for existing residential stock rather than new supply. Until policy measures translate into completed units, the structural undersupply persists, reinforcing rental growth and occupancy stability for existing portfolios.

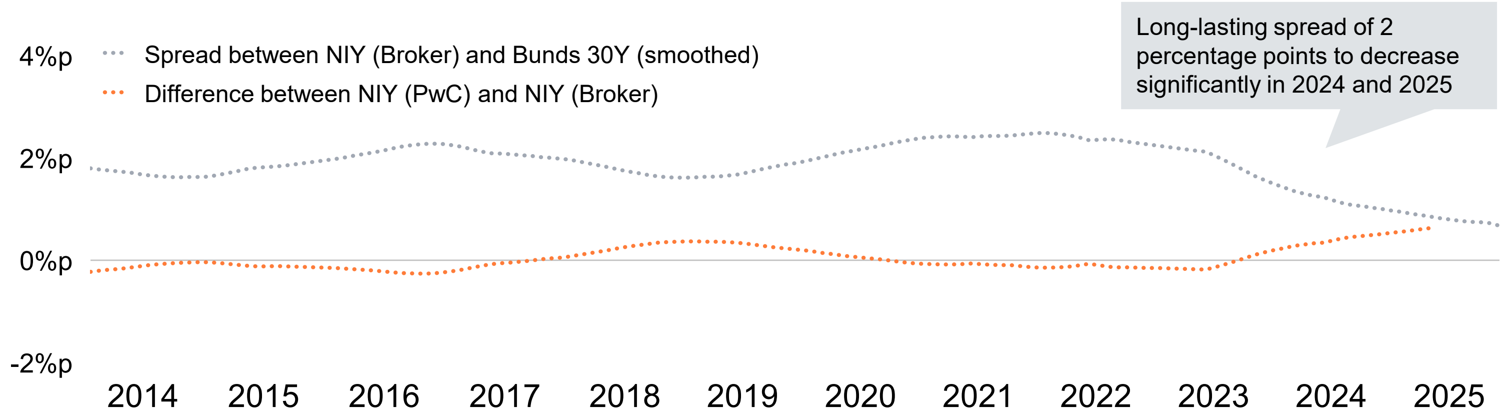
Sources: Destatis, Deutsche Bundesbank, PwC Real Estate Institute



Residential Pricing is Driven by Income Rather Than Rates

- The compression of the spread between residential net initial yields and long dated Bunds indicates that relative value has tightened materially. Residential assets no longer benefit from a wide rate buffer and are now priced for a stable long-term interest rate environment.
- With Bund 30 year yields exposed to fiscal-driven issuance and a rebuilding of term premia, the long end is likely to remain elevated and volatile rather than trending lower. In this environment, residential total returns must be generated primarily through rental growth and occupancy stability rather than through yield compression.
- Current broker yield expectations already embed an improvement in financing conditions and risk premia. If this fails to materialize, pricing discipline will increase and yield dispersion across assets will widen.
- For 2026, the base case is a resilient but more selective residential market. Prime assets with strong demand, low vacancy and manageable capital expenditure can sustain compressed spreads, while secondary stock will require higher yields. The investment case is shifting decisively from a rate-driven to an income-driven cycle.





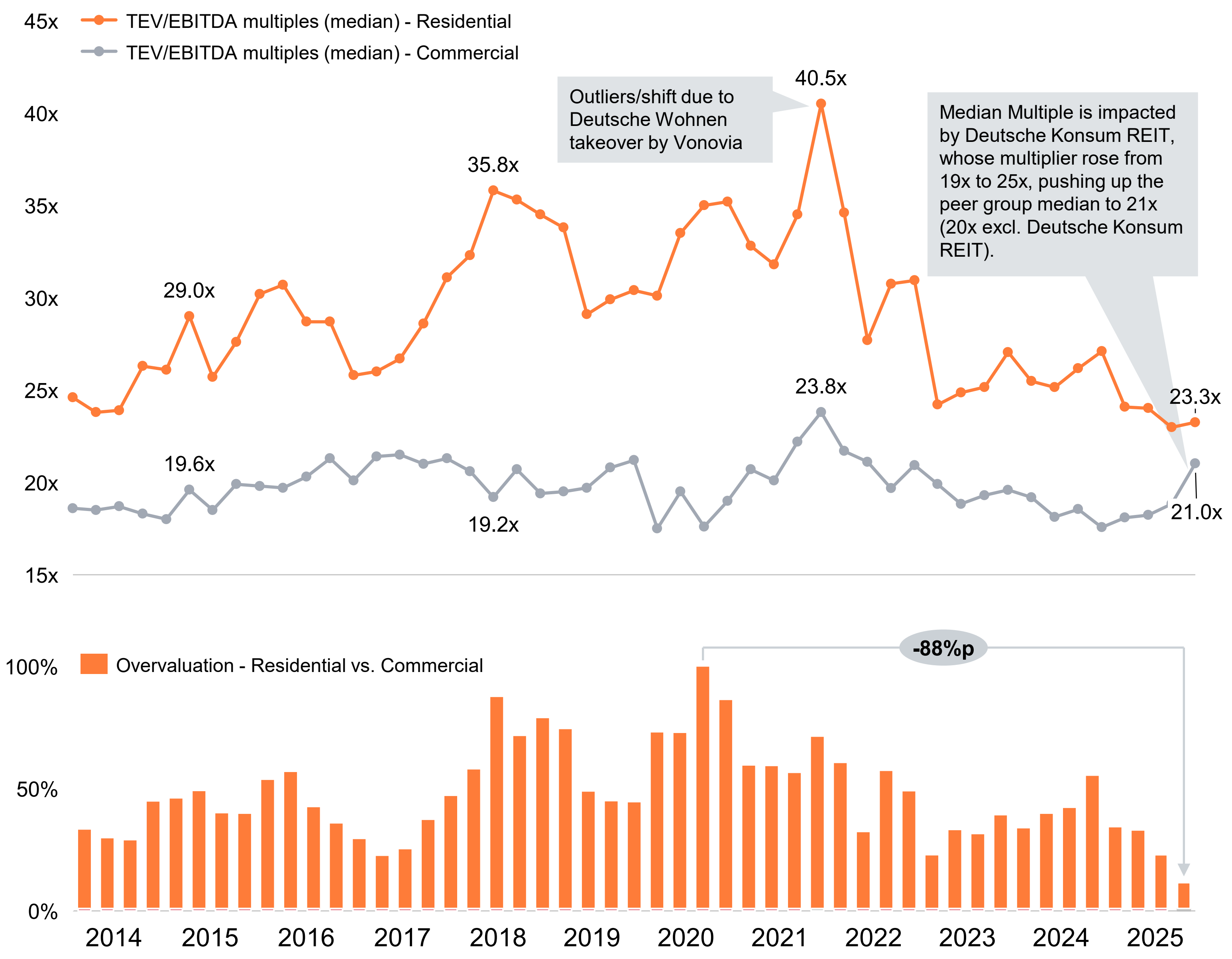
* Yield methodology: Net Initial Yields are triangulated from broker panels, INREV definitions and PwC smoothing. Spreads versus Bunds use 30-year benchmarks to capture duration effects. Differences to single-broker points reflect coverage, timing and smoothing.

Source: PwC Analysis of broker reports (Net Initial Yield (NIY) according to INREV: Passing rent/net operating income divided by gross property value)

Residential has Reset to Cashflow while Commercial Remains Priced to Balance Sheet Risk

- Residential entity multiples have completed a full adjustment to the higher interest rate environment and now reflect a cashflow-based valuation regime rather than a bond proxy. The sharp compression since 2021 represents a structural reset in how the real estate sector is priced in capital markets, not a deterioration in underlying rental fundamentals, which remain supported by strong demand, low vacancy and limited new supply.
- The historically narrow multiple gap between residential and commercial does not indicate excess in housing. It reflects a shift in perceived income risk, with office heavy commercial portfolios facing higher uncertainty around vacancy, leasing and capital expenditure. While the PwC Commercial Index has been volatile as equity investors repriced refinancing and balance sheet risk, enterprise values and operating multiples have been more stable, indicating that asset level cash flows have adjusted far less than equity valuations.
- From a longer term perspective, mean reversion remains a plausible base case for residential assets rather than a mechanical outcome. Structural housing shortages and sustained rental growth support earnings durability, while further normalization will depend on the gradual easing of refinancing pressure and the absence of materially adverse regulatory changes.
- Looking into 2026, the market is likely to remain highly selective. Residential assets with sustainable demand and visible rental growth are positioned to benefit as balance sheet risk recedes, while commercial performance will be driven by the pace of office market rebalancing and the evolution of credit conditions.

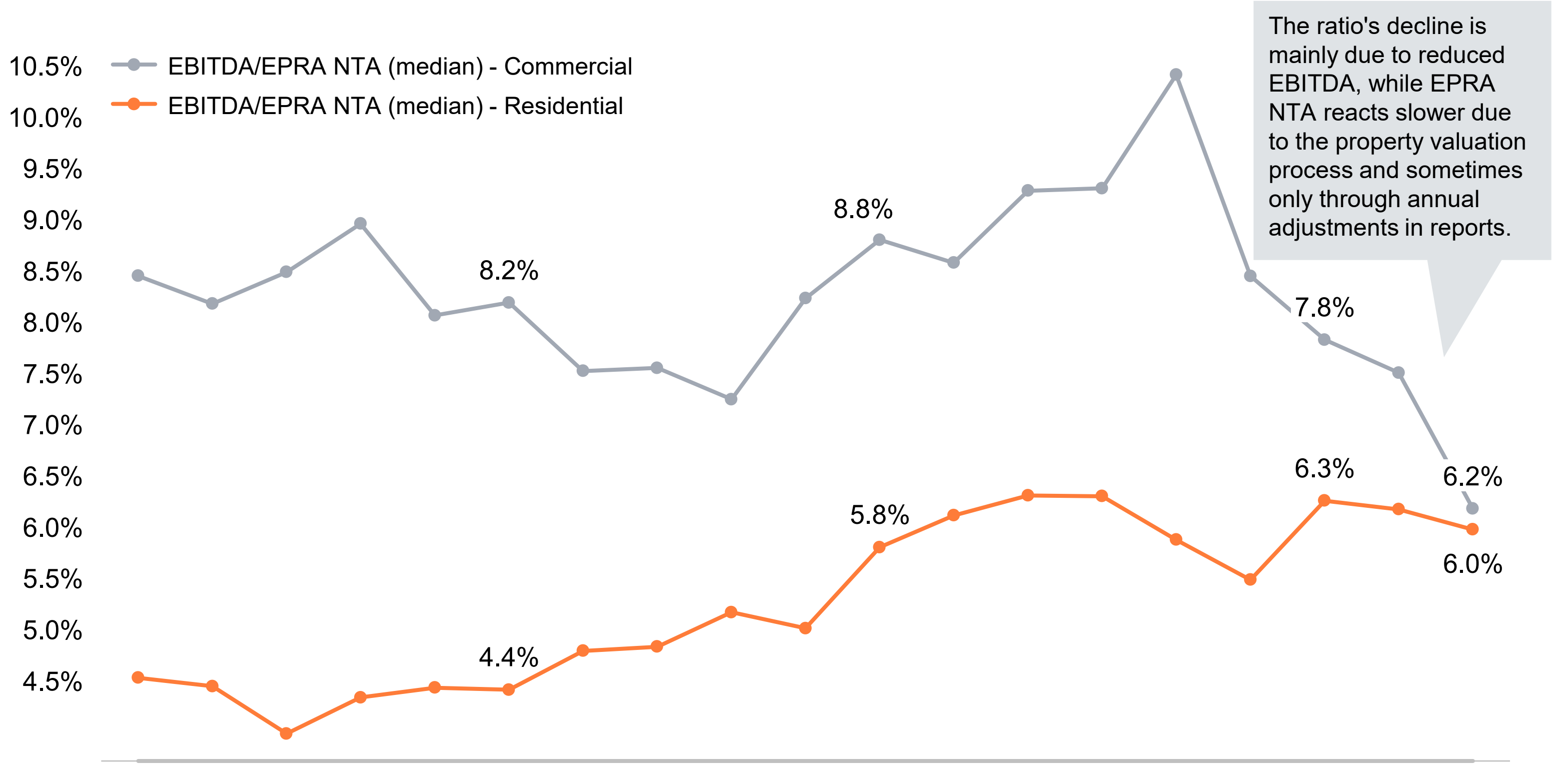
Sources: S&P Market Intelligence, PwC Real Estate Institute

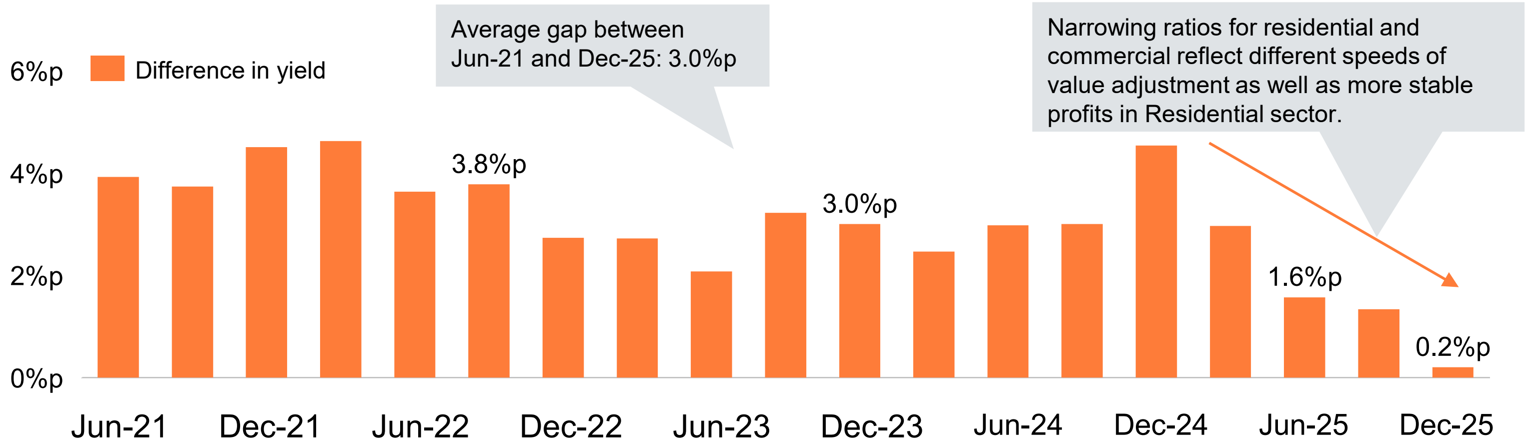


Operating Performance and Asset Values are Realigning at Different Speeds Across Sectors

- The EBITDA to EPRA NTA ratios highlight how operating performance and reported asset values evolved across sectors into Q4 2025. In residential real estate, the ratio has stabilized at a higher level, reflecting sustained rental growth, low vacancy and structurally limited new supply. This indicates that income generation has largely absorbed the interest rate reset, even though balance sheets remain in a transition phase.
- In the commercial segment, the ratio has declined and now converges towards residential levels. This reflects the combined effect of weaker letting dynamics, higher tenant incentives and a more cautious capital expenditure environment, particularly in office heavy portfolios. At the same time, reported asset values tend to adjust with a lag in a low-liquidity market environment, implying that part of the ongoing correction is still being transmitted from operating performance into balance sheet metrics.
- The narrowing gap between residential and commercial earnings yields therefore does not indicate convergence in fundamentals, but rather different speeds of adjustment across the cycle. Equity markets have priced these dynamics more rapidly, while appraisal-based values continue to reflect the shift in market conditions more gradually.
- Looking into 2026, residential portfolios with sustainable demand and visible rental growth remain positioned to benefit from improving earnings visibility as refinancing risk eases. Commercial outcomes will depend on the pace of office market rebalancing and the alignment between operating cashflows and reported asset values, reinforcing a highly selective investment environment.

Sources: Annual and quarterly reports, S&P Market Intelligence, PwC Real Estate Institute

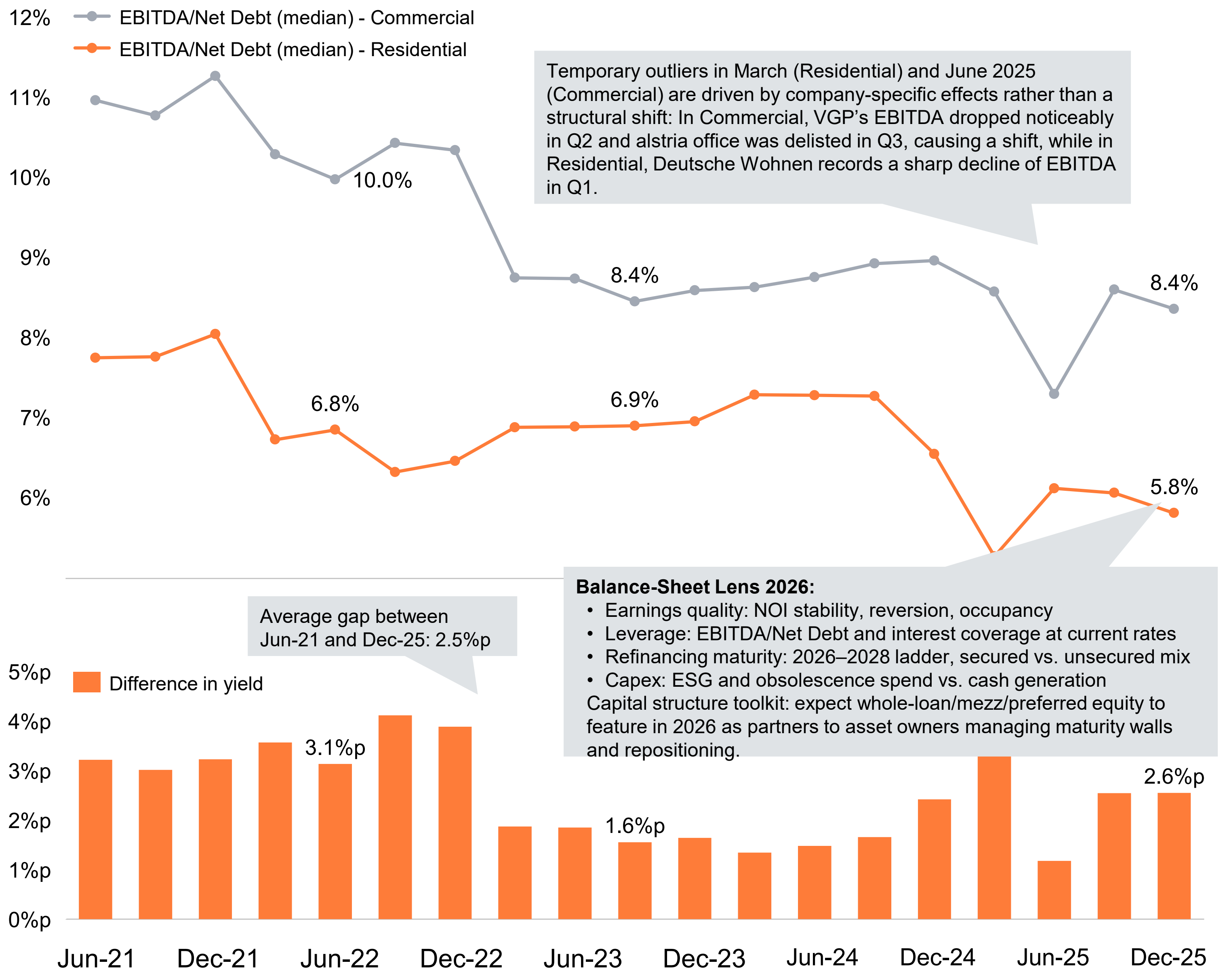




Income Visibility Versus Refinancing Risk Defines the Market

- The PwC indices and valuation multiples show that residential and commercial real estate are now priced on very different risk premia. This graph explains why. The EBITDA-to-Net Debt ratios reveal how the interest rate reset has shifted the cycle from a valuation driven phase into a balance sheet driven one.
- Commercial real estate has entered a structurally more demanding earnings and financing environment. In office-exposed portfolios in particular, weaker leasing momentum, longer re-letting cycles and higher tenant incentives have reduced EBITDA and cash flow visibility. At the same time, refinancing costs have risen sharply, compressing the ability of earnings to service debt. The decline in EBITDA to Net Debt ratio therefore captures not only operational pressure but also the tighter funding regime now facing the sector.
- Residential portfolios have been more resilient. Strong rental demand, low vacancy and inflation-linked lease structures have helped protect EBITDA, even as interest expenses have increased. As a result, the deterioration in EBITDA to Net Debt has been more moderate, highlighting the stronger income stability and financing capacity of housing platforms relative to commercial peers.
- The charts illustrate a clear regime change. Equity markets are no longer focused primarily on asset values but on the sustainability of balance sheets. Companies with sustainable cash flows and manageable leverage are being rewarded, while portfolios with higher refinancing risk and weaker income visibility are being repriced more aggressively. This balance-sheet-centric lens now defines how real estate risk is priced across the capital markets.

Sources: Annual and quarterly reports, S&P Market Intelligence, PwC Real Estate Institute



German Residential Real Estate Stocks Trade at ~48% Discount to Net Asset Value

Comment on Price to EPRA NTA ratio

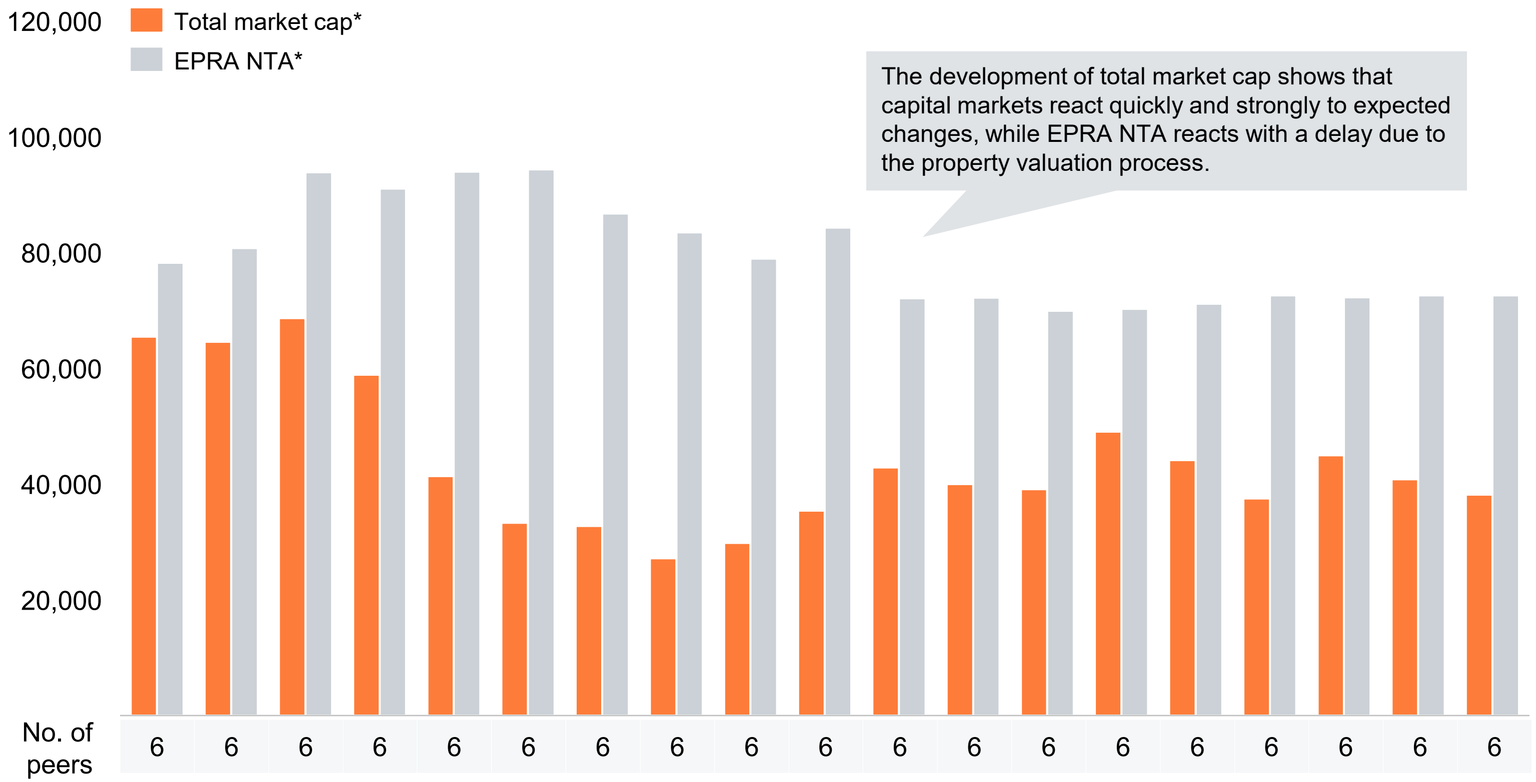
The ratio serves as a proxy for the value of its real estate holdings and is therefore an important indicator of the company's relative valuation level. A ratio of 1.0x means that the market value of the company reflects the book value at the same level.

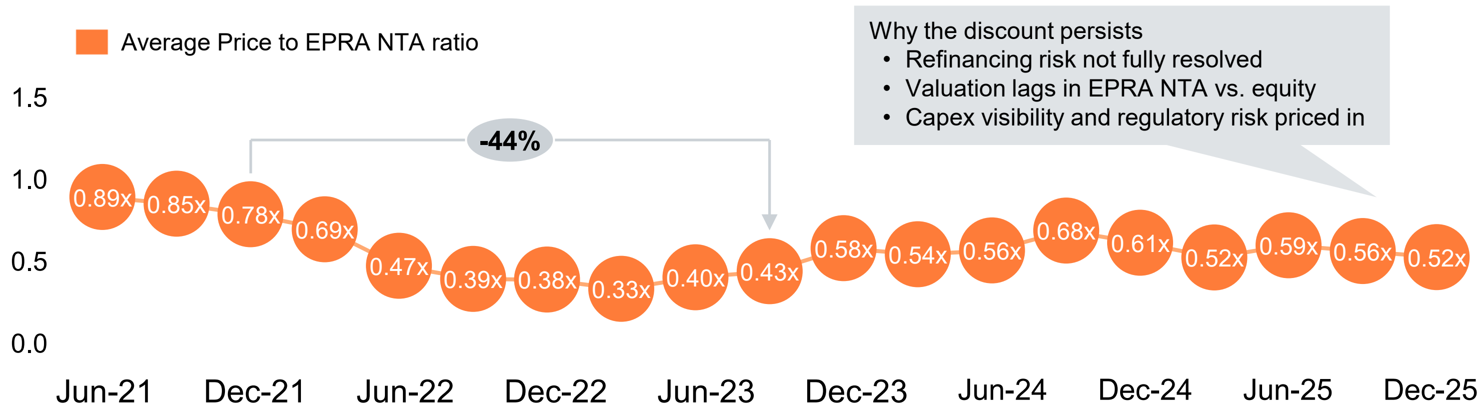
$$\frac{Market\ capitalisation}{EPRA\ Net\ Tangible\ Asset} = Price\ to\ EPRA\ NTA$$

Actual peer group and Price to EPRA NTA as of 31 Dec 2025

Deutsche Wohnen SE	**0.50x**
Grand City Properties S.A.	**0.39x**
LEG Immobilien SE	**0.48x**
Phoenix Spree Deutschland Limited	**0.55x**
TAG Immobilien AG	**0.66x**
Vonovia SE	**0.55x**
Average	**0.52x**

* Adjustments to the peer group are made at the turn of the calendar year and can thus lead to abrupt changes.
Sources: Annual and quarterly reports, S&P Market Intelligence, PwC Real Estate Institute





Valuation Gap: Listed Commercial Property Holders Continue to Trade at High Discounts

Comment on Price to EPRA NTA ratio

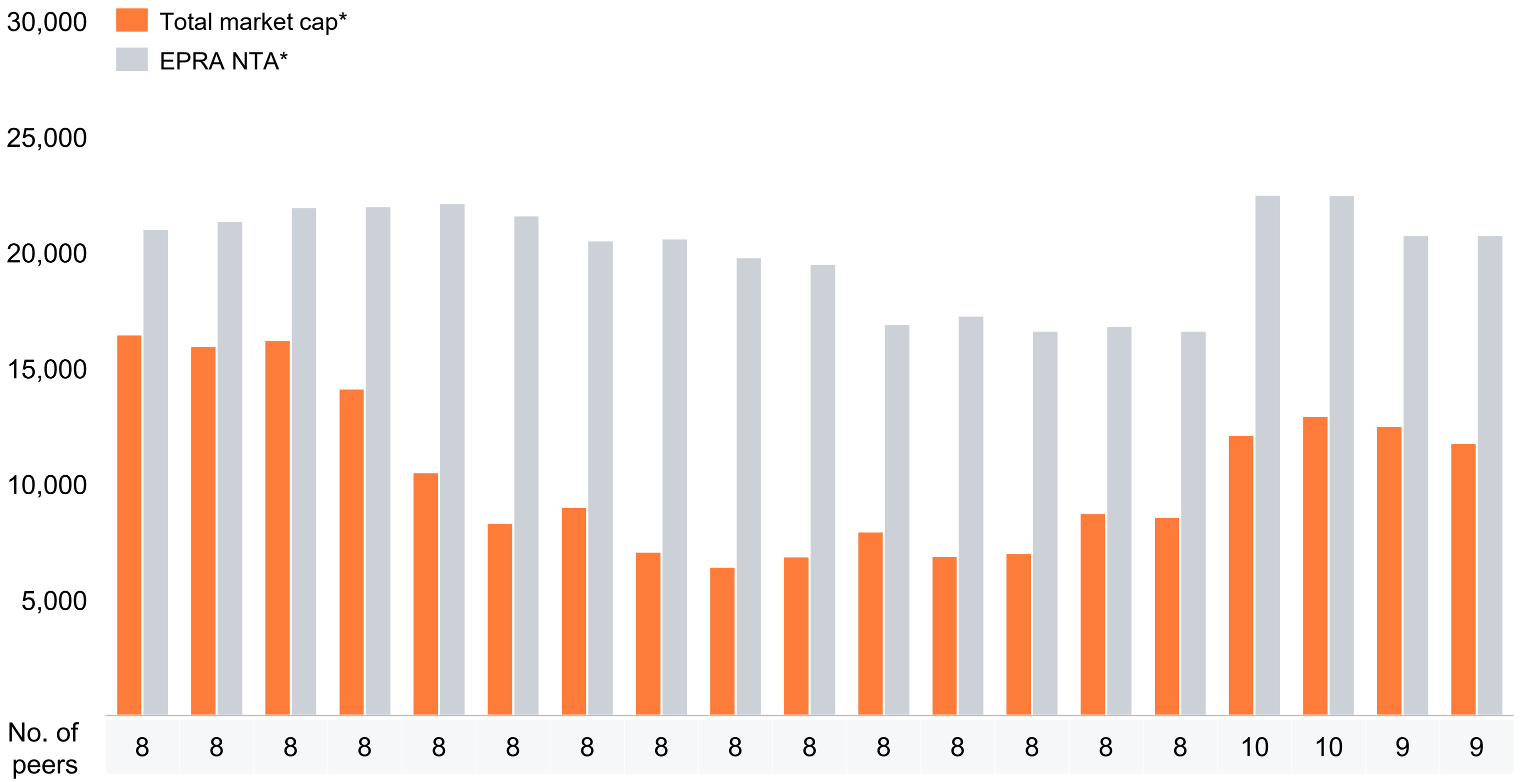
The ratio serves as a proxy for the value of its real estate holdings and is therefore an important indicator of the company's relative valuation level. A ratio of 1.0x means that the market value of the company reflects the book value at the same level.

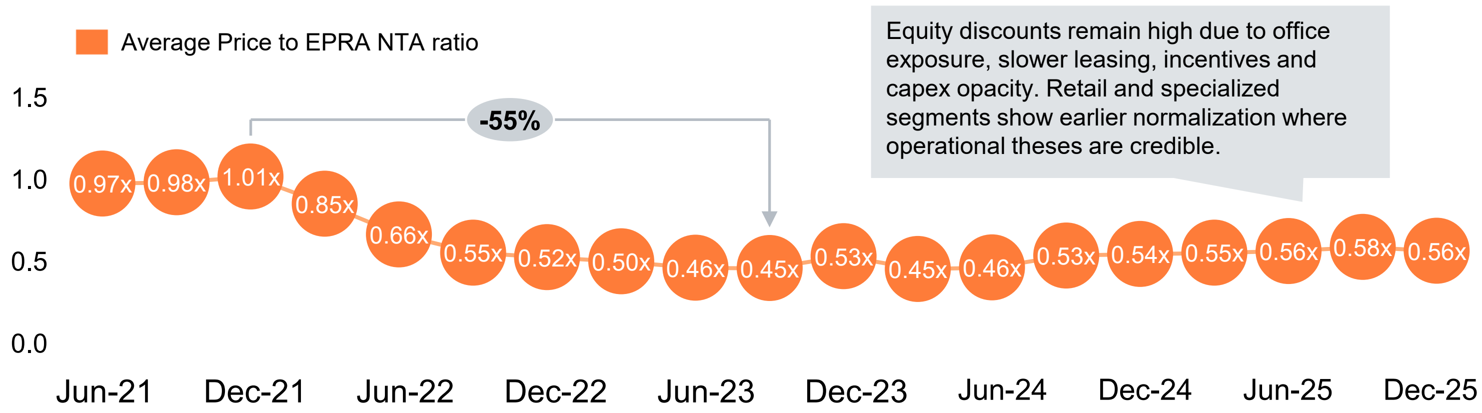
$$\frac{\mathit{Market\ capitalisation}}{\mathit{EPRA\ Net\ Tangible\ Asset}} = \mathit{Price\ to\ EPRA\ NTA}$$

Actual peer group and Price to EPRA NTA as of 31 Dec 2025

alstria office REIT-AG	**n/a**
Aroundtown SA	**0.34x**
Branicks Group AG	**0.29x**
CA Immobilien Anlagen AG	**0.73x**
Deutsche EuroShop AG	**0.69x**
Deutsche Konsum REIT-AG	**0.25x**
Hamborner REIT AG	**0.46x**
Sirius Real Estate Limited	**0.93x**
VGP NV	**1.05x**
VIB Vermögen AG	**0.29x**
Average	**0.56x**

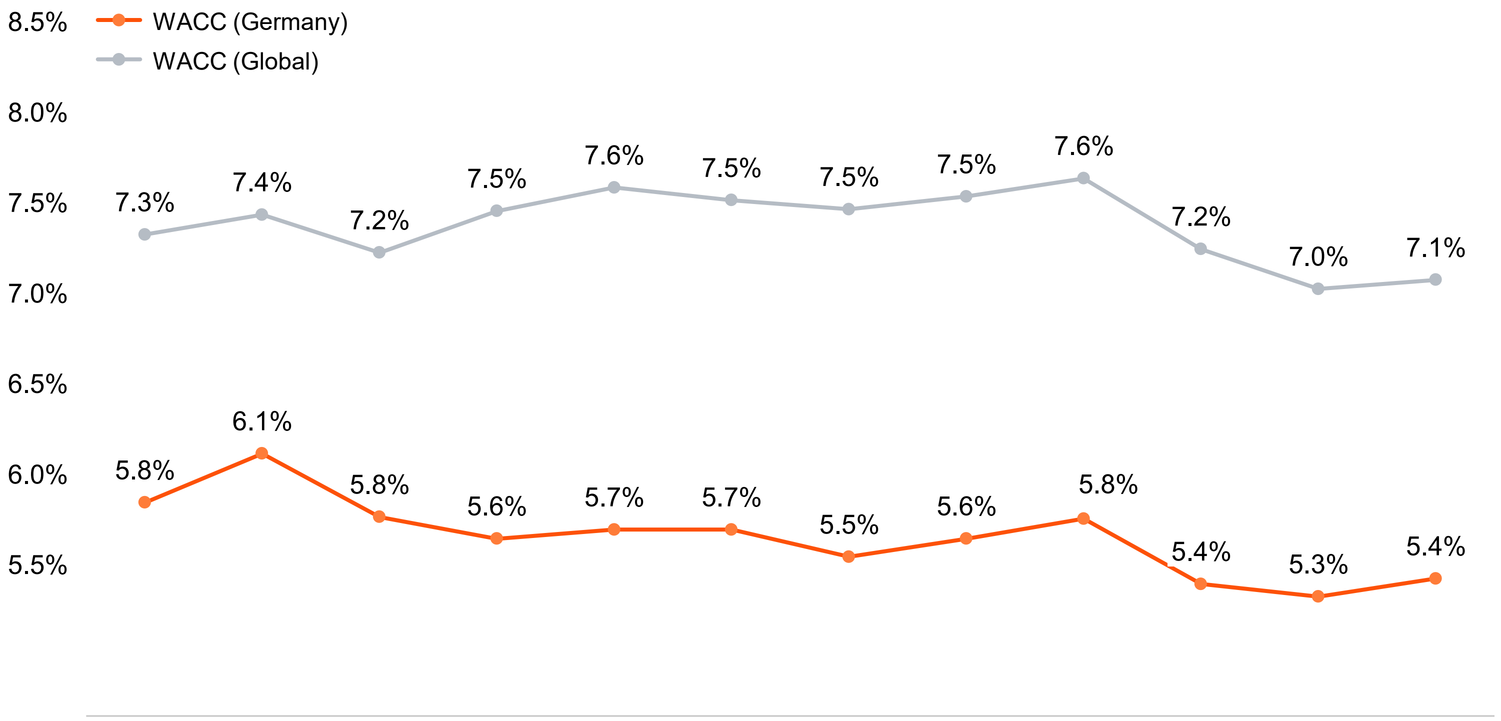
* Adjustments to the peer group are made at the turn of the calendar year and can thus lead to abrupt changes.
Sources: Annual and quarterly reports, S&P Market Intelligence, PwC Real Estate Institute

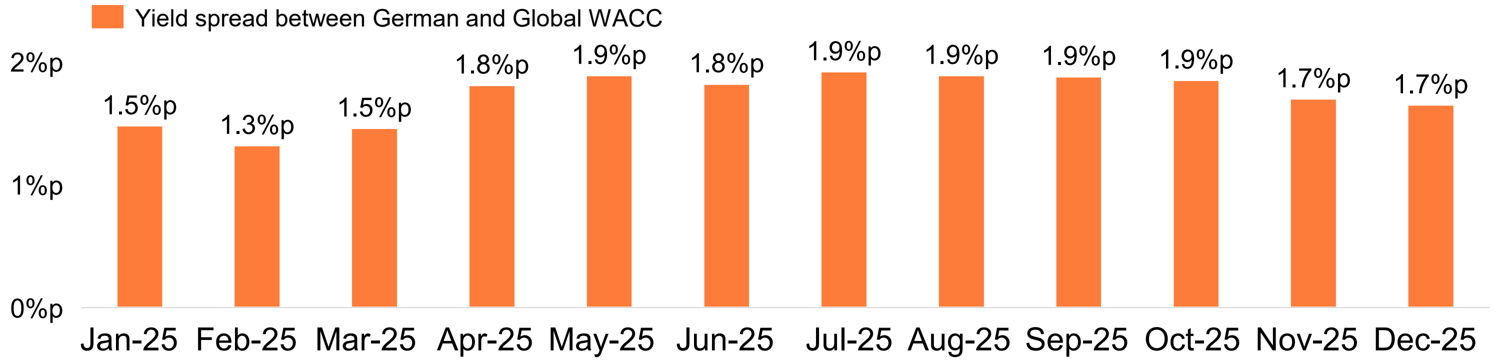




Higher WACC Reflects Greater Risk in Global Real Estate Compared to Germany

- The evolution of weighted average cost of capital in 2025 confirms a decisive shift in how German real estate is priced by capital markets. After the interest rate shock of the past cycle, financing conditions for domestic property companies have moved into a far more stable range during the course of the year, with a visible easing in the fourth quarter. This stabilization reflects tightening credit spreads, improved refinancing visibility and the growing differentiation between resilient and structurally challenged cash flow profiles.
- At the same time, global real estate continues to carry materially higher capital costs. International peers remain exposed to greater macroeconomic uncertainty, more volatile funding markets and deeper structural pressure in office heavy portfolios. The persistent spread between German and global WACC therefore indicates a renewed relative attractiveness of Germany as a capital allocation destination rather than a broad based recovery in global property markets.
- Within Germany, this environment reinforces the bifurcation already visible across the Monitor. Residential and other cash flow resilient segments benefit directly from easing financing pressure, while commercial portfolios remain constrained by weaker operating performance despite more stable capital markets. The fourth quarter of 2025 marks a transition from a repricing phase driven by interest rates to a cycle increasingly shaped by balance sheet strength and income sustainability, setting the framework for how capital will be deployed across German real estate in the period ahead.





Sources: S&P Market Intelligence, PwC Real Estate Institute

Appendix: Methodological Basis for PwC Real Estate Monitor

Peer Group Derivation

- The PwC German Real Estate Monitor is our quarterly real estate sector update, supporting investors, lenders, and asset managers in shaping investment strategies and capital allocation decisions.
- As part of our ongoing real estate sector analysis, we define two dedicated peer groups comprising listed companies with a primary focus on residential and commercial real estate.
- Peer selection is performed annually and is based on both qualitative and quantitative screening criteria, including a minimum market capitalisation of €100m and a free float above 10%.
- The analysis leverages key valuation metrics such as Price/EPRA NTA ratios, EV/EBITDA, WACC, etc. and is reviewed on a quarterly basis to ensure consistency and comparability over time.
- These valuation indicators are evaluated in conjunction with macroeconomic parameters including government bond yields, interest rates, swap rates, and other relevant market data to provide a comprehensive view of current conditions and emerging trends.
- This combined approach enables us to assess relative market positioning, identify valuation dislocations, and highlight forward-looking sector dynamics.

Sources: Annual and quarterly reports, S&P Market Intelligence, PwC Real Estate Institute

	FFO 1 multiple			Price/EPRA NTA ratio		
Stock price as of KPI (FFO and NAV) as of	**31/12/2023** FY2023	**31/12/2024** FY2024	**31/12/2025** TFQ2025	**31/12/2023** 31/12/2023	**31/12/2024** 31/12/2024	**31/12/2025** 30/09/2025
Residential						
Deutsche Wohnen SE	17.6x	18.2x	14.8x	0.56x	0.55x	0.50x
Grand City Properties SA	9.4x	10.8x	9.2x	0.43x	0.47x	0.39x
LEG Immobilien SE	12.9x	13.3x	9.4x	0.63x	0.65x	0.48x
Phoenix Spree Deutschland Limited				0.50x	0.58x	0.55x
TAG Immobilien AG	13.5x	14.4x	13.9x	0.72x	0.75x	0.66x
Vonovia SE	12.9x	13.4x	11.0x	0.61x	0.65x	0.55x
25%-Percentile	**12.9x**	**13.3x**	**9.4x**	**0.52x**	**0.56x**	**0.49x**
Average	**13.3x**	**14.0x**	**11.7x**	**0.58x**	**0.61x**	**0.52x**
75%-Percentile	**13.5x**	**14.4x**	**13.9x**	**0.63x**	**0.65x**	**0.55x**
Commercial						
alstria office REIT-AG	7.4x	16.9x		0.40x	0.84x	
Aroundtown SA	8.2x	10.1x	9.6x	0.34x	0.39x	0.34x
Branicks Group AG	5.4x	3.6x	2.6x	0.28x	0.32x	0.29x
CA Immobilien Anlagen AG			17.1x			0.73x
DEFAMA Deutsche Fachmarkt AG	12.0x	13.4x	12.6x			
Deutsche EuroShop AG	10.1x	8.9x	9.8x	0.71x	0.63x	0.69x
Deutsche Konsum REIT-AG	3.9x	5.9x	7.8x	0.31x	0.35x	0.25x
Deutsche Real Estate AG	12.0x	7.9x	10.1x			
FCR Immobilien AG	17.0x	14.8x	15.9x			
Hamborner REIT AG	10.1x	9.9x	7.8x	0.68x	0.64x	0.46x
Sirius Real Estate Limited	13.4x	11.9x	13.1x	1.15x	0.86x	0.93x
VGP NV						1.05x
VIB Vermögen AG	6.3x	4.2x	3.7x	0.34x	0.28x	0.29x
25%-Percentile	**6.9x**	**6.9x**	**6.8x**	**0.33x**	**0.34x**	**0.29x**
Average	**9.6x**	**9.8x**	**9.2x**	**0.53x**	**0.54x**	**0.50x**
75%-Percentile	**12.0x**	**12.6x**	**12.7x**	**0.69x**	**0.69x**	**0.72x**

Get in Touch

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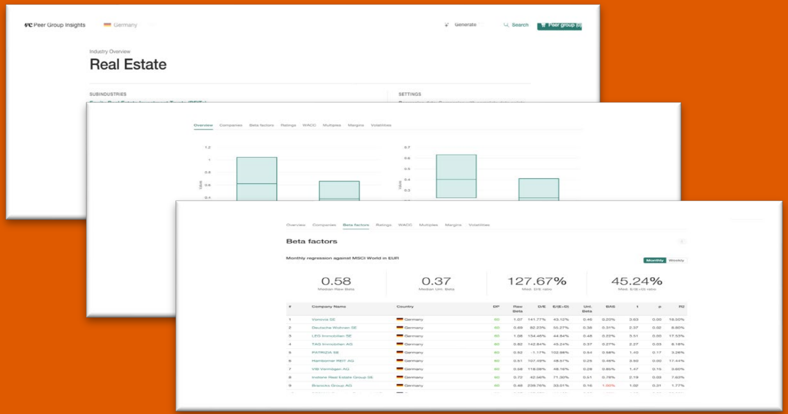

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