



Real Estate Monitor

German Real Estate: After the Storm –
Signs of Recovery in a Stabilising Environment

Deals | Valuation, Modelling & Analytics
Juli 2025



Agenda

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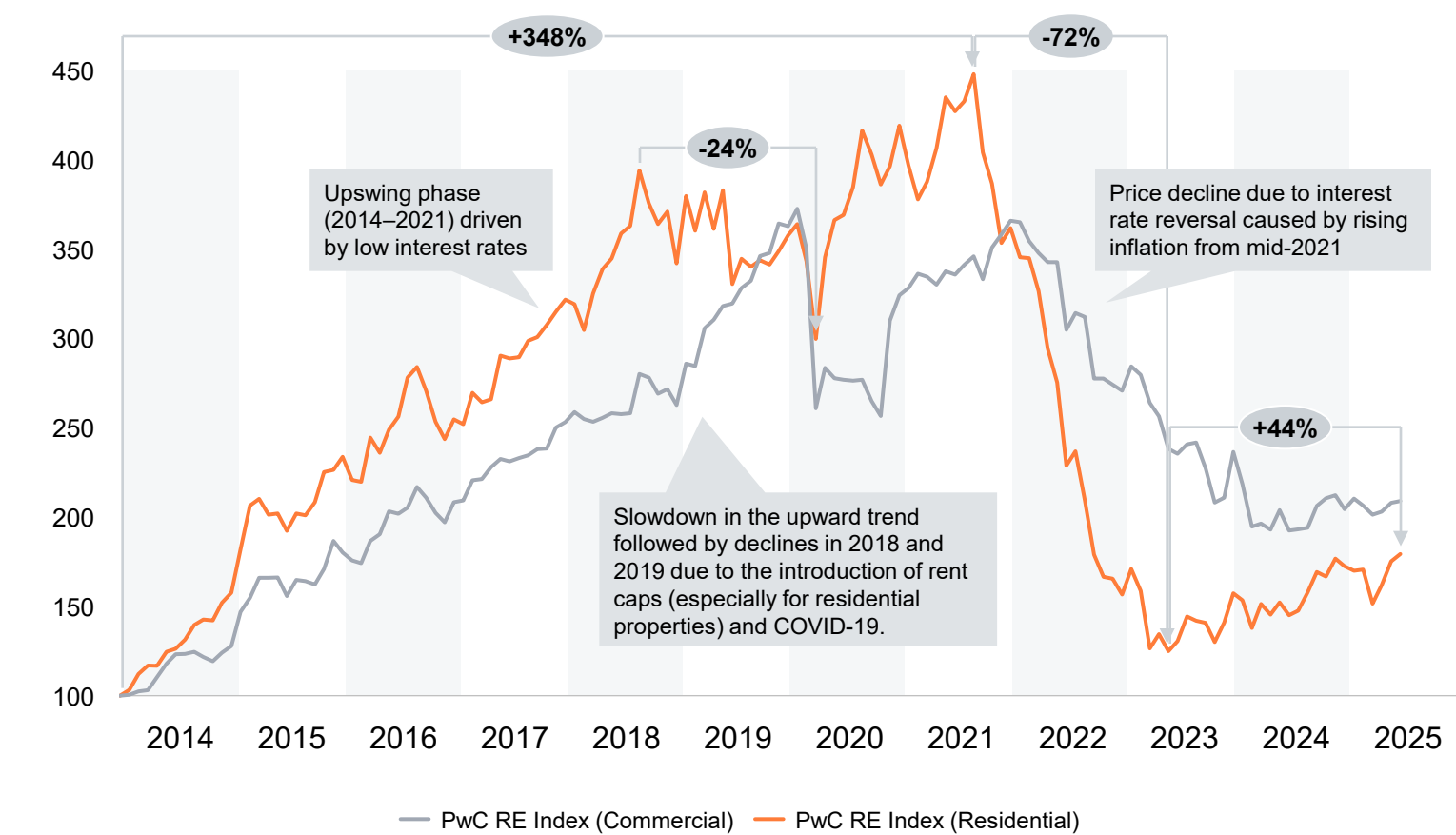


Navigating the German Real Estate Market from Boom to Reset Across Economic Cycles

PwC Real Estate Indices

- The PwC Real Estate Indices are total return indices that track the average share price performance of listed German property companies, separately for the residential and commercial sectors. They are equally weighted and incorporate both capital gains and dividend payments, offering a comprehensive reflection of investor returns in the real estate equity market. The indices serve as a proxy for investor sentiment and valuation trends in the German real estate sector.
- The German real estate market has undergone a pronounced megacycle shaped by monetary and macroeconomic shifts since the global financial crisis characterised by a low-interest-rate-driven upswing followed by a sharp correction amid inflation and rising financing costs.
- With the onset of the COVID-19 pandemic in early 2020, the market experienced temporary disruption. A significant shift occurred in 2021 as rising inflation prompted the ECB to increase interest rates to maintain price stability. This marked the second phase of the cycle in which real estate prices were under pressure due to higher refinancing costs.
- By mid-2023, the PwC Real Estate Index reached its relative low of 125. Since then, share prices have been cautiously rebounding as monetary conditions stabilise.

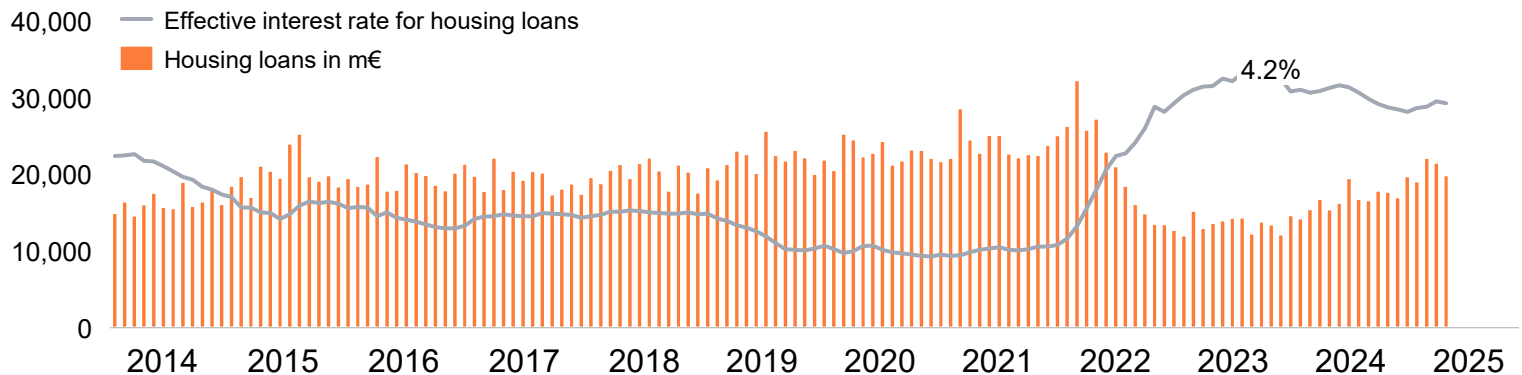
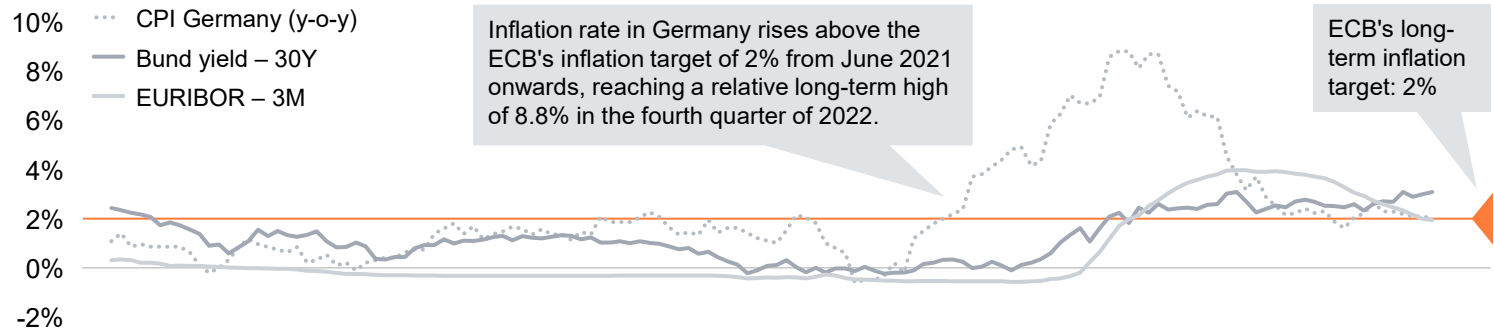
Sources: S&P Market Intelligence, PwC Real Estate Institute



Performance Jun-25	YTD	1 month	3 months	6 months	1 year	2 years	3 years	5 years
Commercial	2.3%	0.5%	3.9%	2.3%	8.6%	-11.2%	-31.4%	-24.5%
Residential	4.0%	2.4%	18.4%	4.0%	23.7%	37.5%	-21.6%	-51.4%

After a 72% Correction from Peak Levels, Listed Residential Property Values Have Stabilised – The Stage is Set for a Gradual Recovery

- Since 2021, rising interest rates and inflation expectations have triggered a sharp decline in residential real estate values, particularly in highly leveraged segments.
- Higher interest rates lead to increased refinancing costs, reduced liquidity and lower margins. As a result, asset values have come under significant pressure.
- For more than a decade prior to this correction, residential property holders benefited from an environment of persistently low interest rates.
- Capital markets tend to anticipate macroeconomic shifts earlier than transaction markets. Indices, such as the PwC Real Estate Index, often reflect changes before they become visible in lending volumes or pricing levels.
- Investors should closely observe the development of interest rate expectations and refinancing dynamics, as these remain key drivers of residential property valuations.
- Lower inflation and softening interest rate expectations have already begun to stabilise listed residential property values.
- Capital market indicators, such as bond spreads and share prices in the residential sector, have levelled off. At the same time, rental growth remains robust, and demographic demand fundamentals are intact. Together, these factors suggest that 2025 could mark an inflection point for value-driven investment strategies.

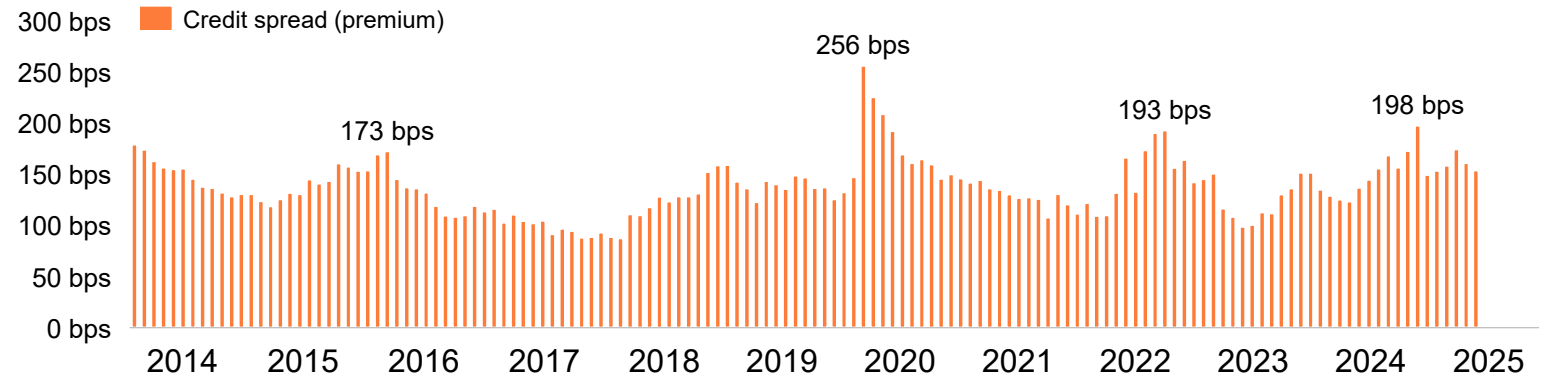
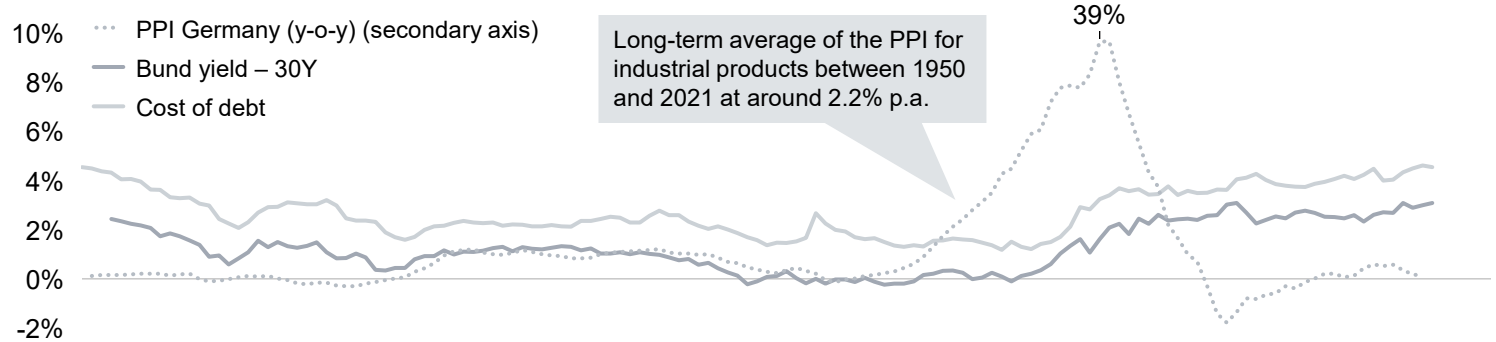


Sources: S&P Market Intelligence, Destatis, Deutsche Bundesbank, PwC Real Estate Institute

Commercial Property Faces Ongoing Valuation Pressure Amid Financing Constraints

- The commercial real estate sector benefited significantly from the low interest rate environment starting in 2014, which supported valuation growth across all major asset classes.
- During the COVID-19 pandemic, the sector experienced only a brief disruption, reflected in a temporary widening of credit spreads.
- Since 2022, rising inflation and interest rates have pushed financing costs upward. Credit spreads in particular remain elevated, highlighting persistent refinancing risk and investor caution.
- As a result, listed commercial property values have declined by more than 40 percent, with no clear signs of recovery to date.
- Unlike in the residential market, capital markets continue to factor in high risk premiums for commercial assets, delaying the start of a potential rebound.
- The path to recovery in the commercial segment remains uncertain. Elevated credit spreads indicate that refinancing challenges persist, particularly for highly leveraged portfolios. However, a sustained decline in long-term rates and signs of stabilisation in corporate bond markets could act as a catalyst. Until then, capital remains cautious, favouring selective investments in core locations and resilient asset types.

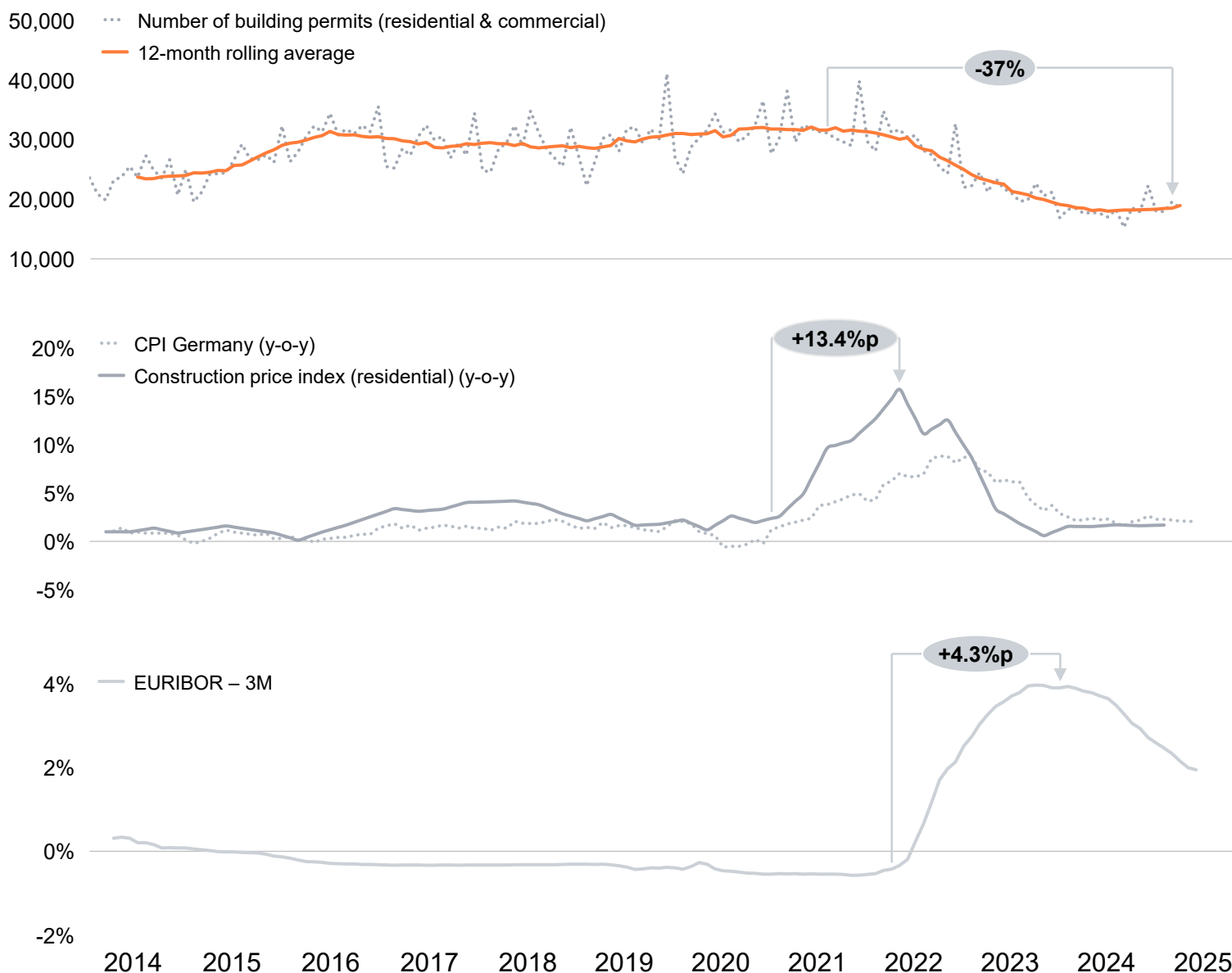
Sources: S&P Market Intelligence, Destatis, PwC Real Estate Institute



Surging Construction Costs and Rising Rates Lead to Sharp Drop in Building Activity

- Construction costs and financing expenses have become critical constraints for the German real estate market.
- The construction price index has risen sharply, reflecting sustained increases in material and labour costs.
- At the same time, interest rates have surged, as illustrated by the rise in EURIBOR, significantly raising financing costs for new developments.
- As a result, building permits have declined markedly, with both residential and commercial developers postponing projects amid tighter margins and heightened risk. This has slowed overall construction activity.
- The environment underscores the need for rigorous cost management and cautious project planning. While general inflation is easing, the cost base for new developments remains significantly above pre-2021 levels.
- Although headline inflation is declining, the cost base for new developments remains significantly higher than in the low-interest, low-cost environment of the 2010s.
- Developers and investors continue to face structural margin compression.

Sources: Destatis, Deutsche Bundesbank, PwC Real Estate Institute

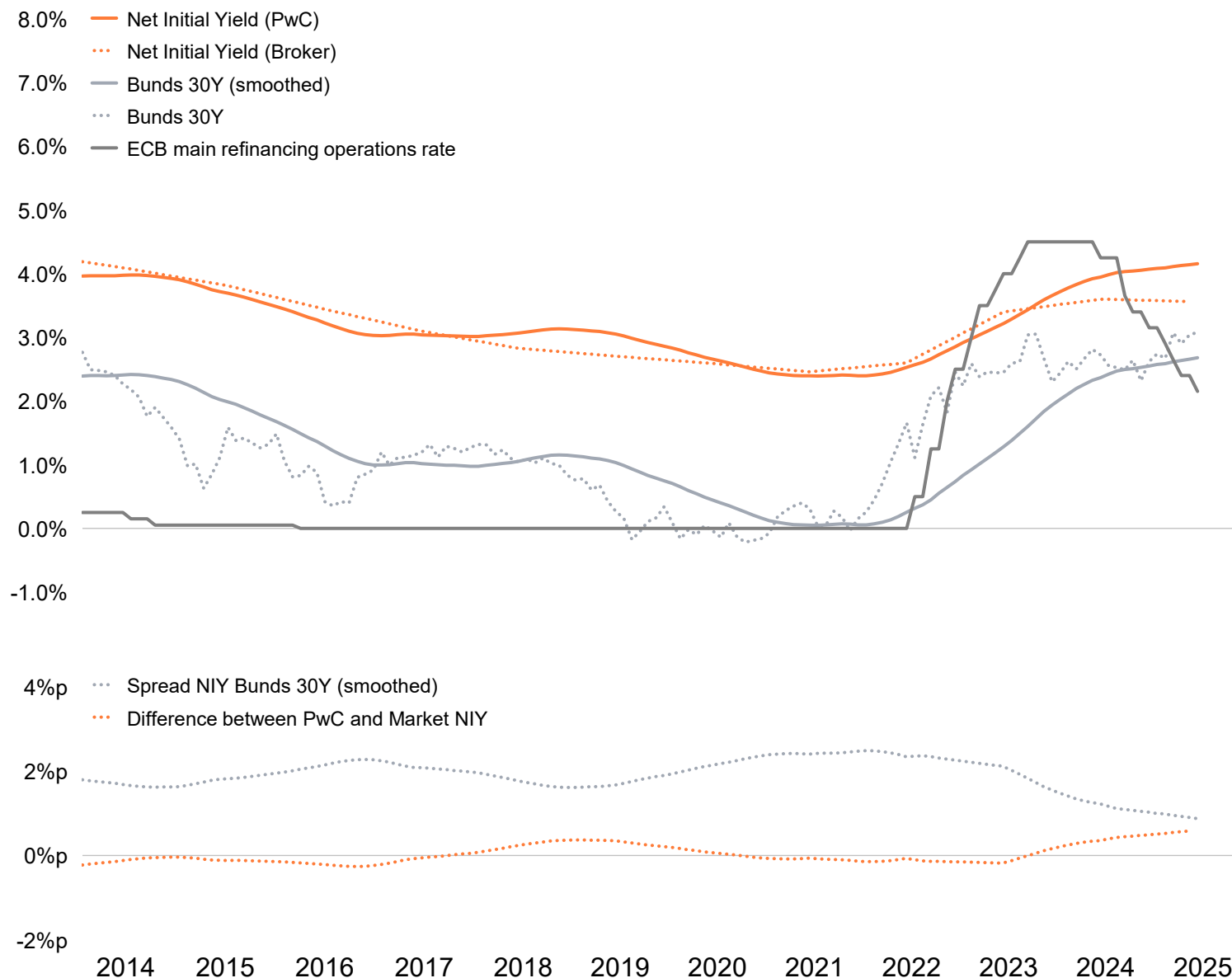


Residential Property Yields Show Signs of Stabilisation Amid Capital Market Volatility

Real Estate Yields and Capital Market Trends: Correlation and Recent Divergence

- Real estate yields are closely linked to capital market developments, particularly long-term interest rates, as investors assess real estate against fixed-income alternatives.
- While capital markets adjust quickly, real estate markets tend to lag, showing lower volatility and delayed reactions. This often results in a measurable spread between actual and implied real estate yields.
- Since 2023, residential net initial yields have begun to stabilise, although spreads remain wide compared to historical averages, reflecting ongoing risk aversion.
- Monitoring yield spreads, such as the difference to long-term Bund yields, provides valuable forward-looking insight for investors assessing pricing and return expectations.
- The regression model used to derive PwC yields (NIY Broker) is adjusted on a yearly basis, based on data for 30 June. As a result, historical estimates may be subject to revision in future publications.
- While stabilisation is evident, market sentiment remains fragile. Yield convergence with capital market alternatives will likely depend on inflation dynamics and central bank policies in the second half of 2025.

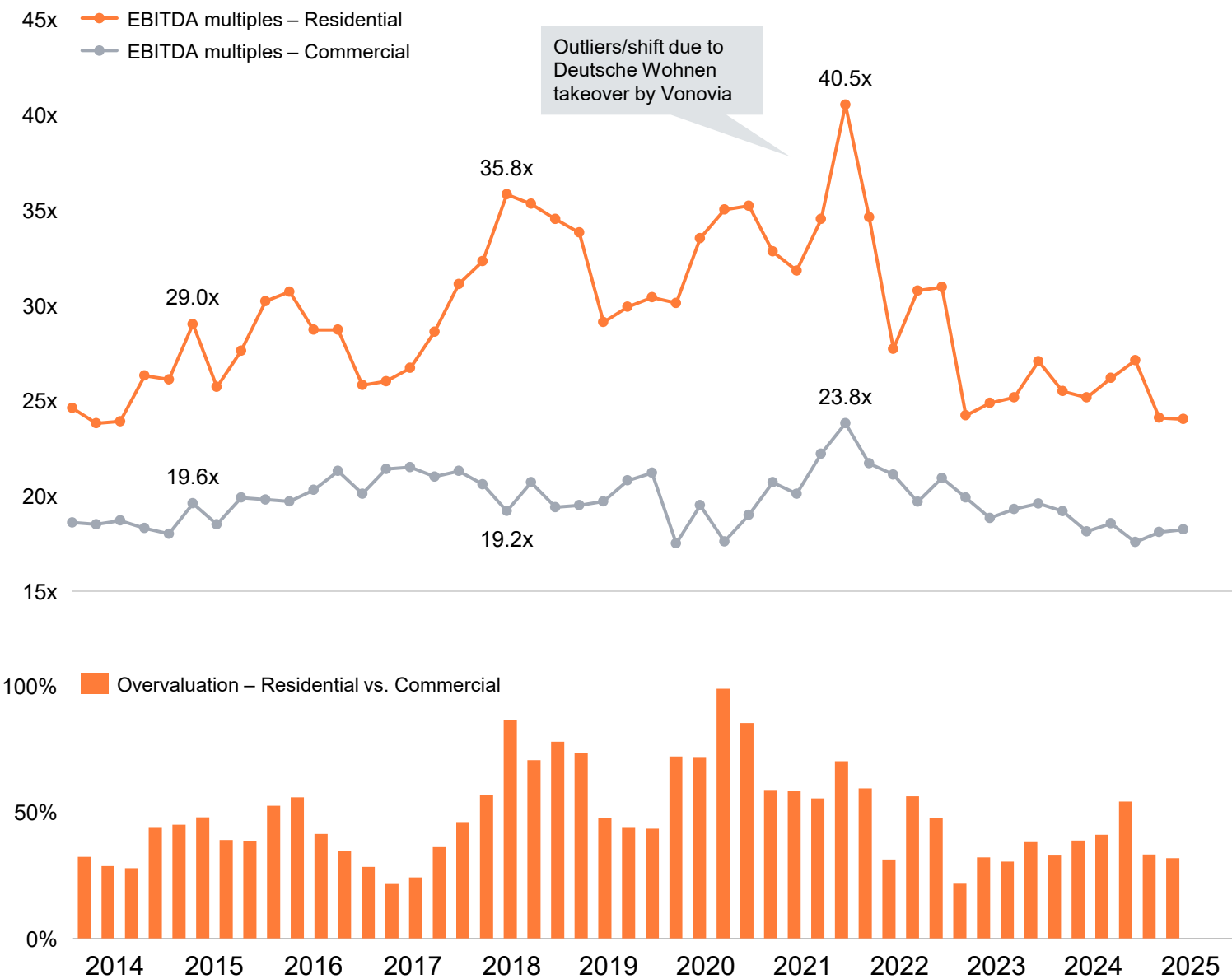
Source: PwC Analysis of broker reports (Net Initial Yield (NIY) according to INREV: Passing rent/net operating income divided by gross property value)



Residential Property Portfolios Continue to Trade at Elevated Multiples Compared to Commercial Peers Reflecting Lower Risk Perception

- Until 2021, historically low interest rates significantly boosted valuation levels, especially for residential property portfolios.
- Over time, residential assets have consistently traded at higher multiples compared to commercial properties, reflecting their more stable cash flows, stronger rental growth and lower perceived risk.
- On average, residential property companies were valued at a premium of approximately 50 percent compared to commercial peers. In 2021, this premium peaked at over 100 percent.
- Although both segments have seen declining multiples since 2022, the valuation gap persists.
- EBITDA multiples serve as a relative valuation tool, enabling comparison of operational performance across property types while controlling for capital structure effects.
- The persistence of valuation premiums suggests that investors continue to favour residential assets in uncertain markets.
- However, multiple contraction across both segments may continue if interest rates remain elevated or earnings expectations decline.

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

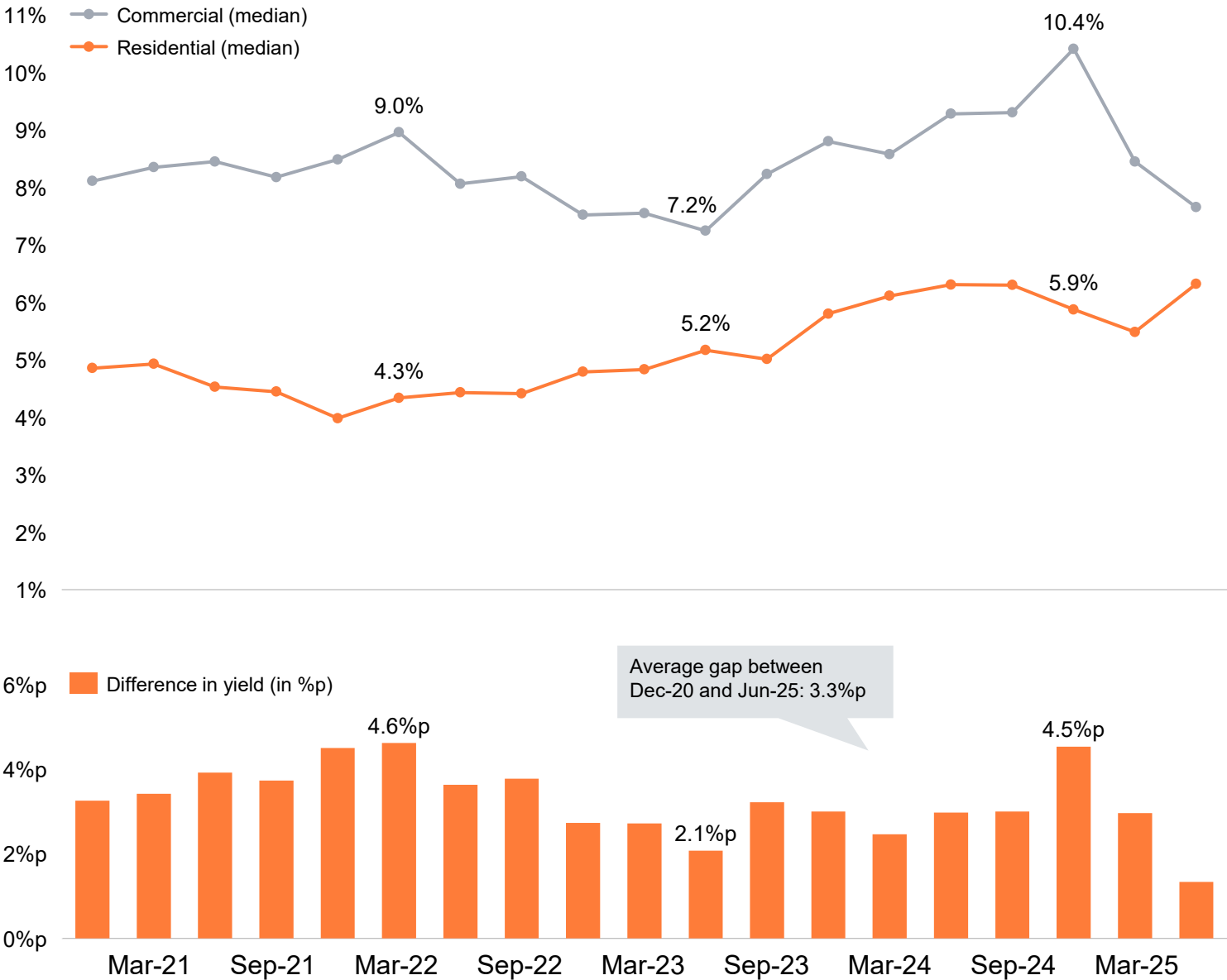


The Valuation Discount of Commercial Properties Reflects Their Higher Yield and Risk Profile

EBITDA to EPRA NTA: Yield Differences and Valuation Premiums

- Residential property companies consistently trade at higher valuations than commercial peers, reflecting their lower risk profile.
- This difference is visible in EBITDA to EPRA NTA ratios and underpinned by yield spreads between the two asset classes.
- Residential units offer more stable cash flows and lower tenant risk, while commercial assets often face higher income volatility and vacancy exposure.
- As a result, commercial yields are structurally higher, currently showing a median spread of approximately 3.3 percentage points.
- This yield gap supports the persistent valuation premium observed in listed residential real estate.

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

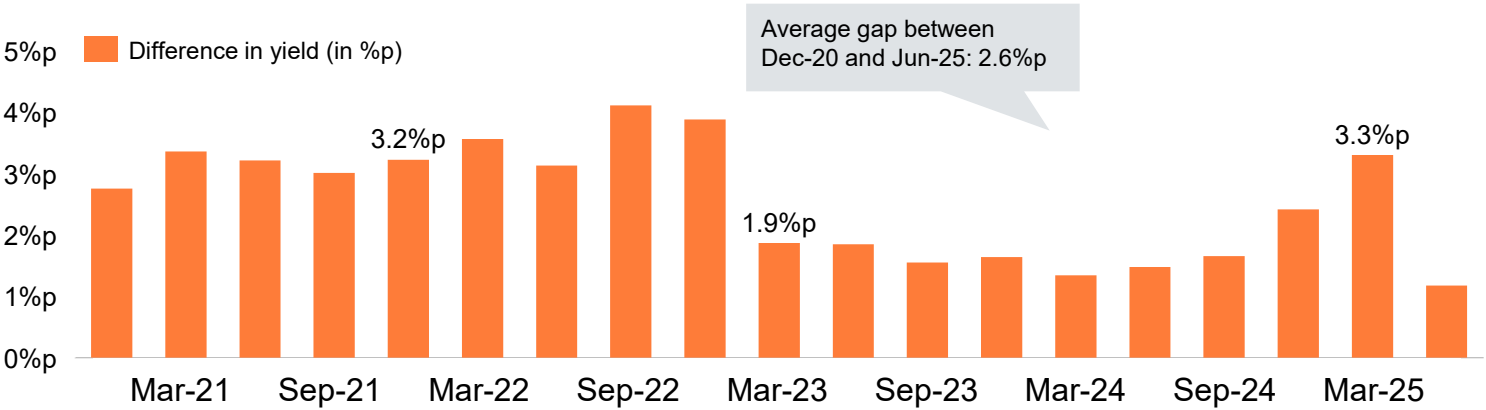
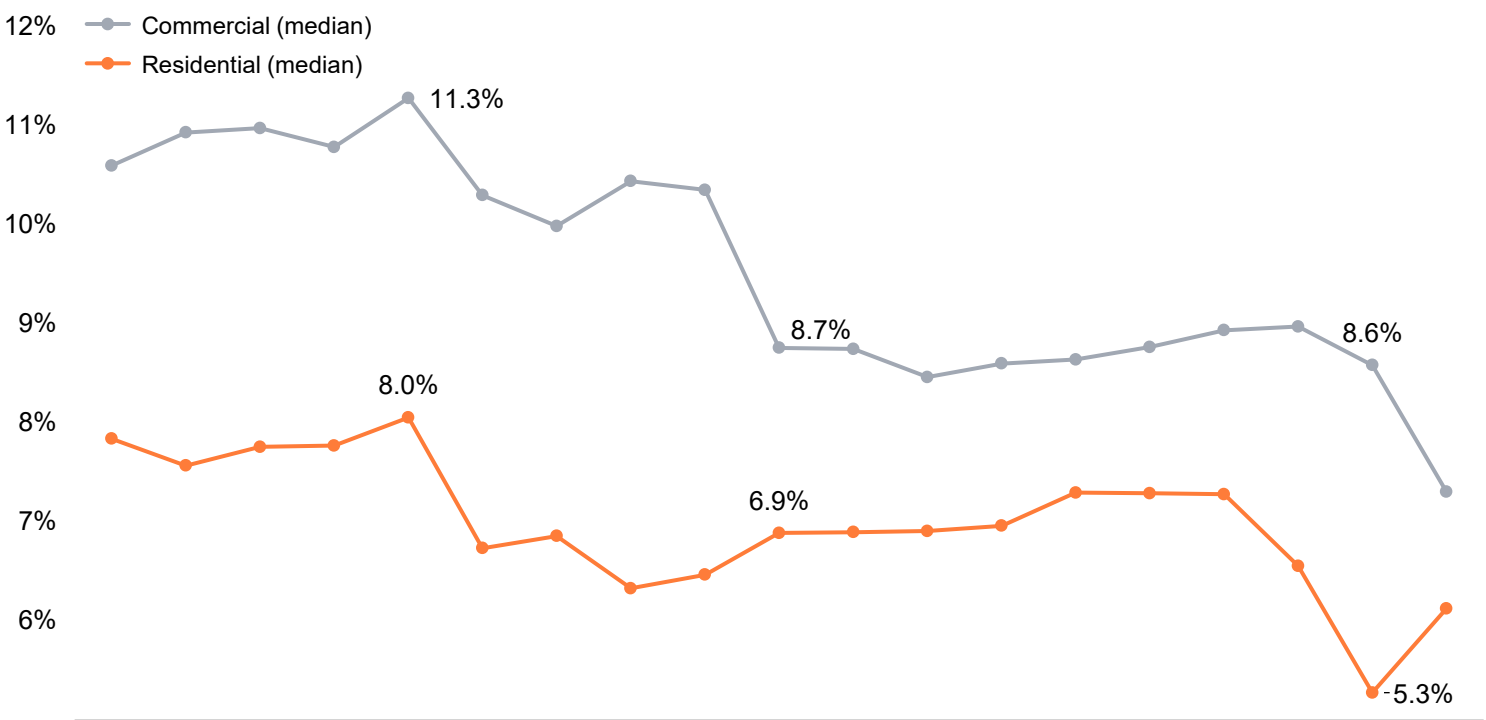


Reduced Debt Servicing Capacity Highlights Structural Risk in the Real Estate Sector

EBITDA to Net Debt: Pressure on Debt Coverage

- Commercial property holders typically show higher EBITDA-to-net debt ratios than residential peers, indicating greater capacity to service debt.
- Since 2021, however, debt coverage ratios have declined across both segments. Earnings are falling faster than debt levels, leading to structurally weaker debt servicing metrics.
- This deterioration reflects a challenging market environment marked by interest rate volatility, reduced rental income growth and tighter margins.
- Investors increasingly factor in solvency risks when valuing real estate portfolios, especially in segments with elevated leverage and limited pricing power.
- The average difference in debt coverage between the two segments during the period under review is approximately 2.6 percentage points.
- Persistently low debt coverage ratios suggest limited short-term flexibility for refinancing or new investment, especially in leveraged portfolios.

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



German Residential RE Stocks

Trade at 40 % 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.

Market capitalisation

EPRA Net Tangible Asset

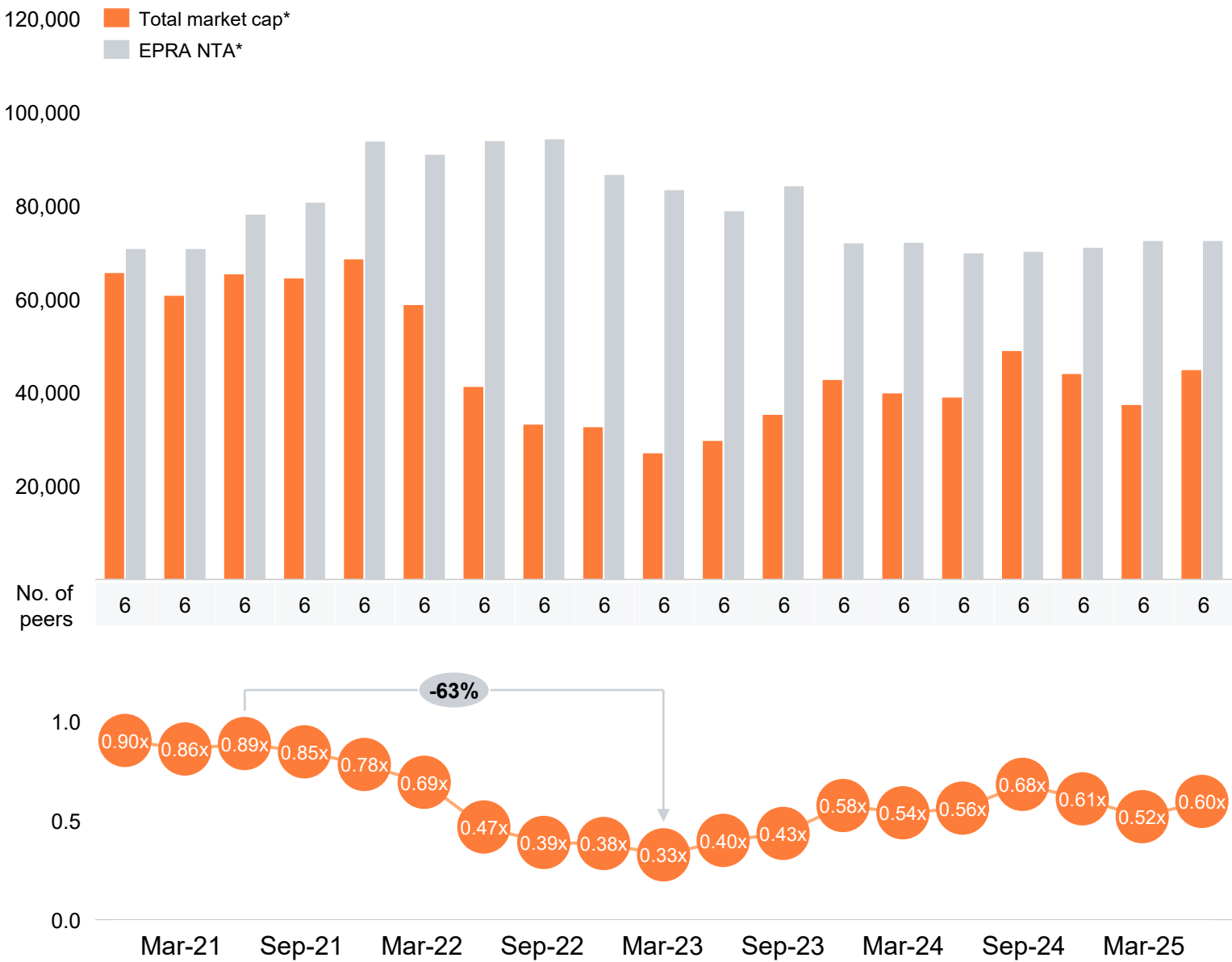
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Price to EPRA NTA

Actual peer group and Price/EPRA NTA as of 30 Jun 2025

Deutsche Wohnen SE	0.57x
Grand City Properties S.A.	0.45x
LEG Immobilien SE	0.59x
Phoenix Spree Deutschland Limited	0.54x
TAG Immobilien AG	0.77x
Vonovia SE	0.66x
Average	0.60x

* 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



Severe Valuation Discount Persists in German Commercial Real Estate Stocks

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.

Market capitalisation

EPRA Net Tangible Asset

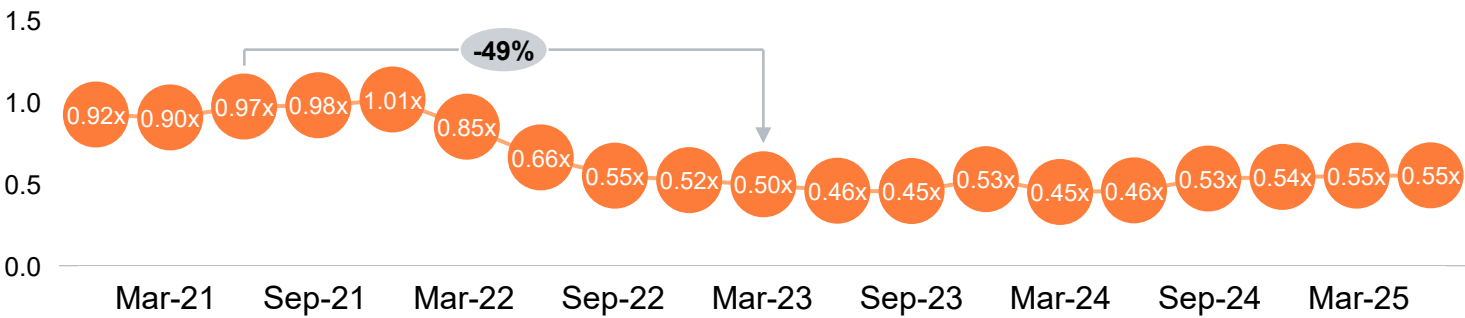
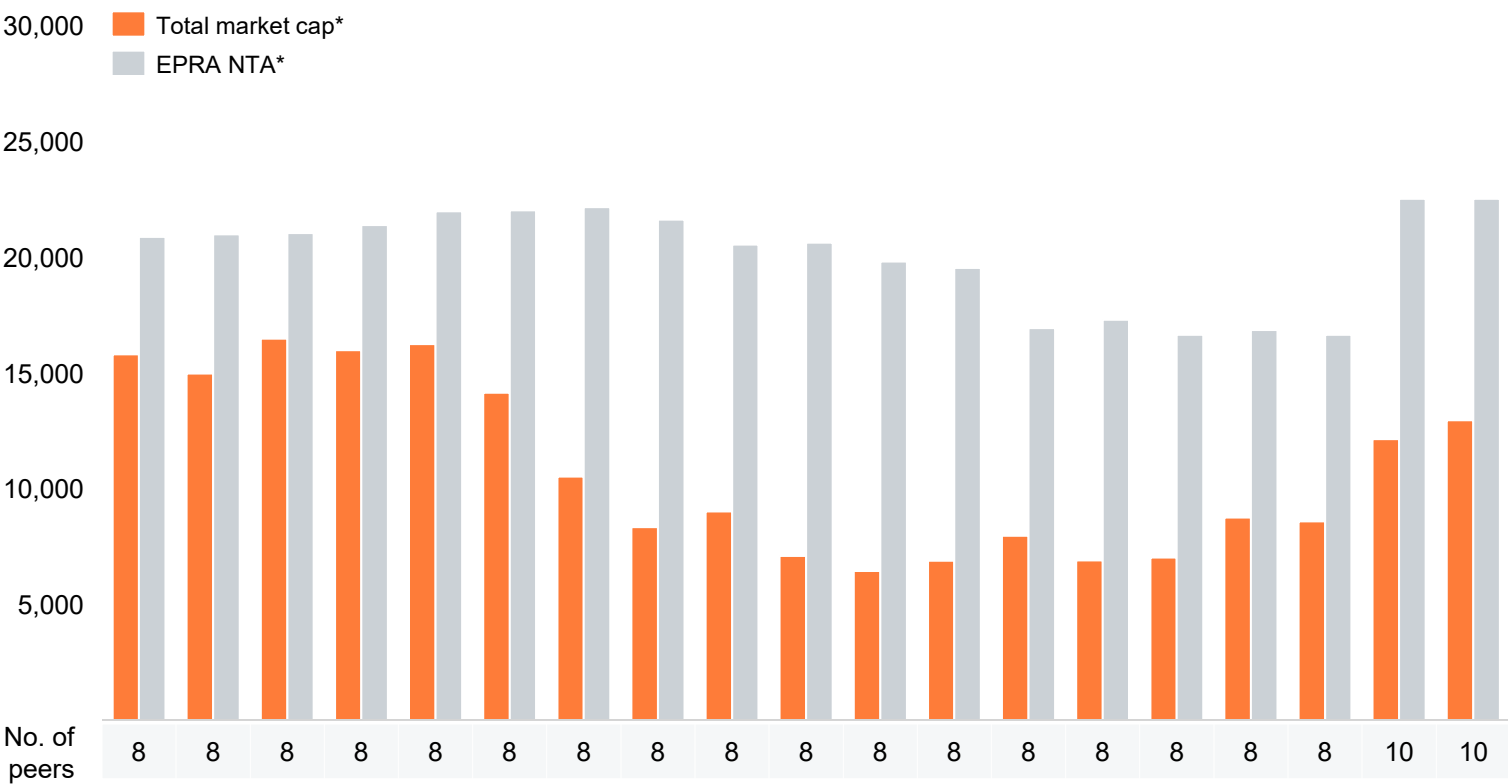
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Price to EPRA NTA

Actual peer group and Price/EPRA NTA as of 30 Jun 2025

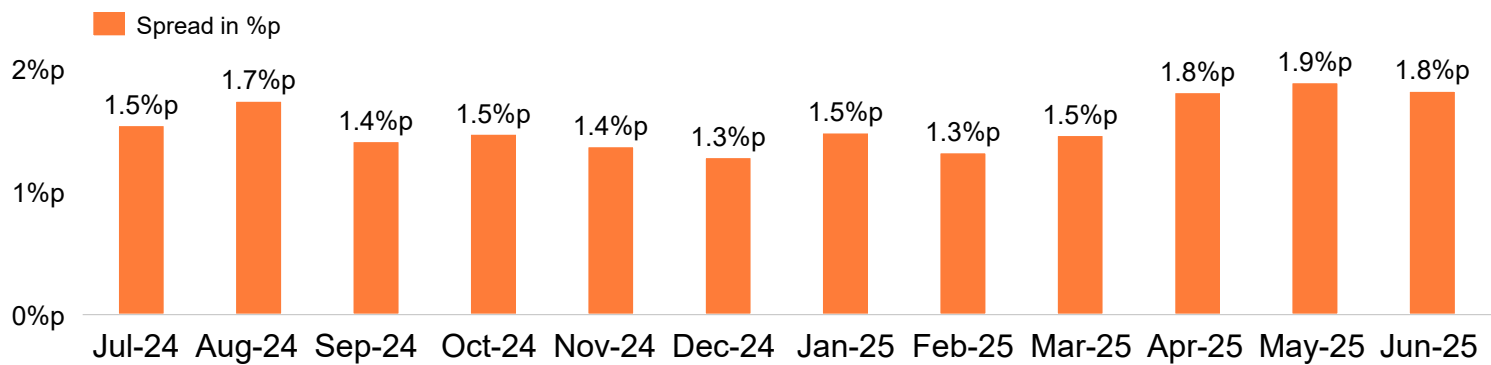
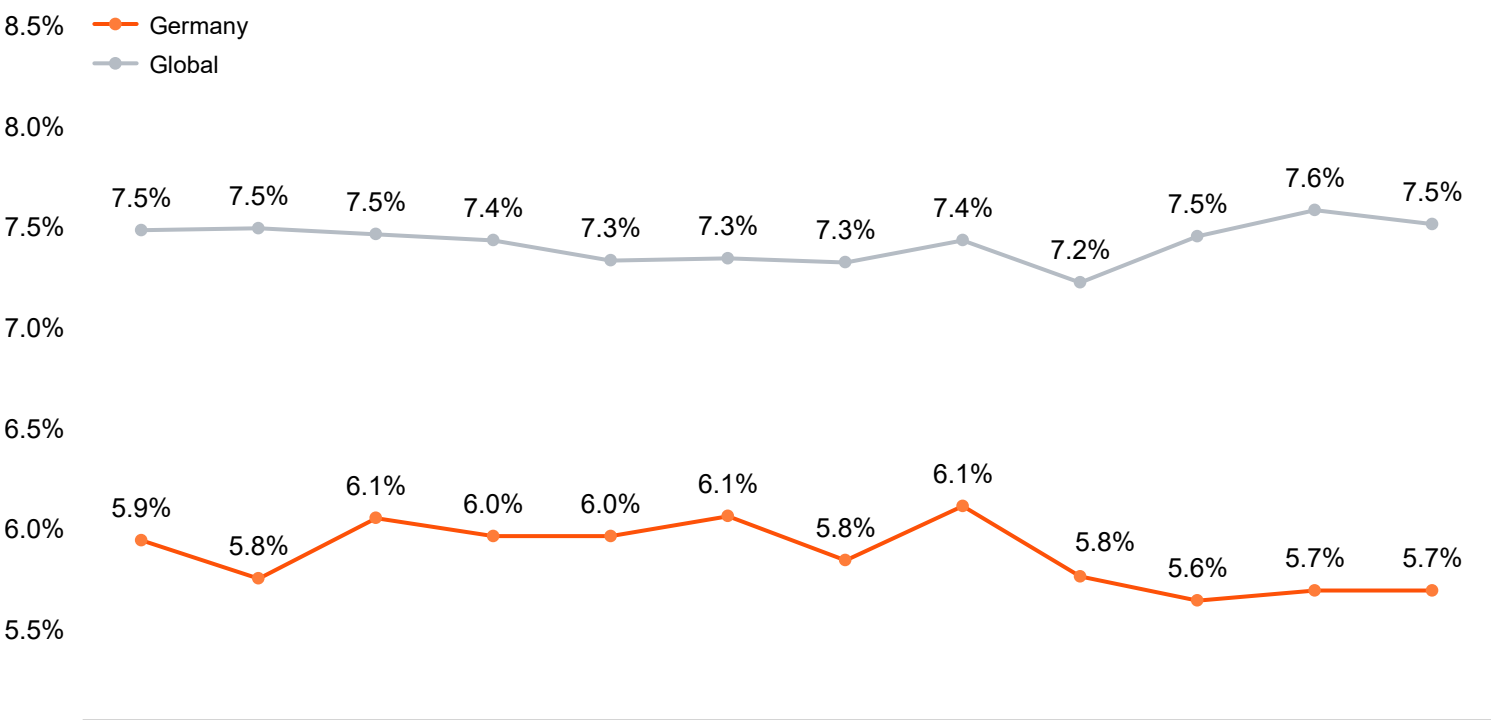
alstria office REIT-AG	0.35x
Aroundtown SA	0.41x
Branicks Group AG	0.29x
CA Immobilien Anlagen AG	0.76x
Deutsche EuroShop AG	0.70x
Deutsche Konsum REIT-AG	0.27x
Hamborner REIT AG	0.60x
Sirius Real Estate Limited	0.95x
VGP NV	0.96x
VIB Vermögen AG	0.20x
Average	0.55x

* 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 Weighted Average Cost of Capital (WACC) for global real estate companies consistently exceeds that of their German peers by approximately 150 to 200 basis points.
- WACC serves as a key input in valuation models by discounting future cash flows. It reflects both debt and equity costs and is a proxy for the risk profile of an investment.
- This yield spread reflects differences in perceived risk, capital structure, market volatility and investor confidence.
- German real estate is seen as relatively more stable and less volatile, resulting in a lower cost of capital. Global peers, by contrast, face broader market and currency risks.



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

Appendix: Methodological Basis for PwC Real Estate Sector Report

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	31/12/2023	31/12/2024	30/06/2025	31/12/2023	31/12/2024	30/06/2025
KPI (FFO and NAV) as of	FY2023	FY2024	TFQ2025	31/12/2023	31/12/2024	31/03/2025
Residential						
Deutsche Wohnen SE	17.6x	18.2x	17.3x	0.56x	0.55x	0.57x
Grand City Properties SA	9.4x	10.8x	10.3x	0.43x	0.47x	0.45x
LEG Immobilien SE	12.9x	13.3x	11.9x	0.63x	0.65x	0.59x
Phoenix Spree Deutschland Limited				0.50x	0.58x	0.54x
TAG Immobilien AG	13.5x	14.4x	15.2x	0.72x	0.75x	0.77x
Vonovia SE	12.9x	13.4x	13.4x	0.61x	0.65x	0.66x
25%-Percentile	12.9x	13.3x	11.9x	0.52x	0.56x	0.55x
Average	13.3x	14.0x	13.6x	0.58x	0.61x	0.60x
75%-Percentile	13.5x	14.4x	15.2x	0.63x	0.65x	0.64x
Commercial						
alstria office REIT-AG	7.4x	16.9x	7.3x	0.40x	0.84x	0.35x
Aroundtown SA	8.2x	10.1x	10.8x	0.34x	0.39x	0.41x
Branicks Group AG	5.4x	3.6x	3.0x	0.28x	0.32x	0.29x
CA Immobilien Anlagen AG			18.5x			0.76x
DEFAMA Deutsche Fachmarkt AG	12.0x	13.4x	13.1x			
Deutsche EuroShop AG	10.1x	8.9x	10.1x	0.71x	0.63x	0.70x
Deutsche Konsum REIT-AG	3.9x	5.9x	5.8x	0.31x	0.35x	0.27x
Deutsche Real Estate AG	12.0x	7.9x	6.9x			
FCR Immobilien AG	17.0x	14.8x	16.8x			
Hamborner REIT AG	10.1x	9.9x	9.8x	0.68x	0.64x	0.60x
Sirius Real Estate Limited	13.4x	12.0x	14.1x	1.15x	0.86x	0.95x
VGP NV						0.96x
VIB Vermögen AG	6.3x	4.2x	3.0x	0.34x	0.28x	0.20x
25%-Percentile	6.9x	6.9x	6.6x	0.33x	0.34x	0.31x
Average	9.6x	9.8x	9.9x	0.53x	0.54x	0.55x
75%-Percentile	12.0x	12.7x	13.3x	0.69x	0.69x	0.75x

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