



Real Estate Monitor

German Real Estate: On the Path to Recovery –
Market Signals in a Stabilising Environment

Deals | Valuation, Modelling & Analytics
October 2025 | Q3-2025



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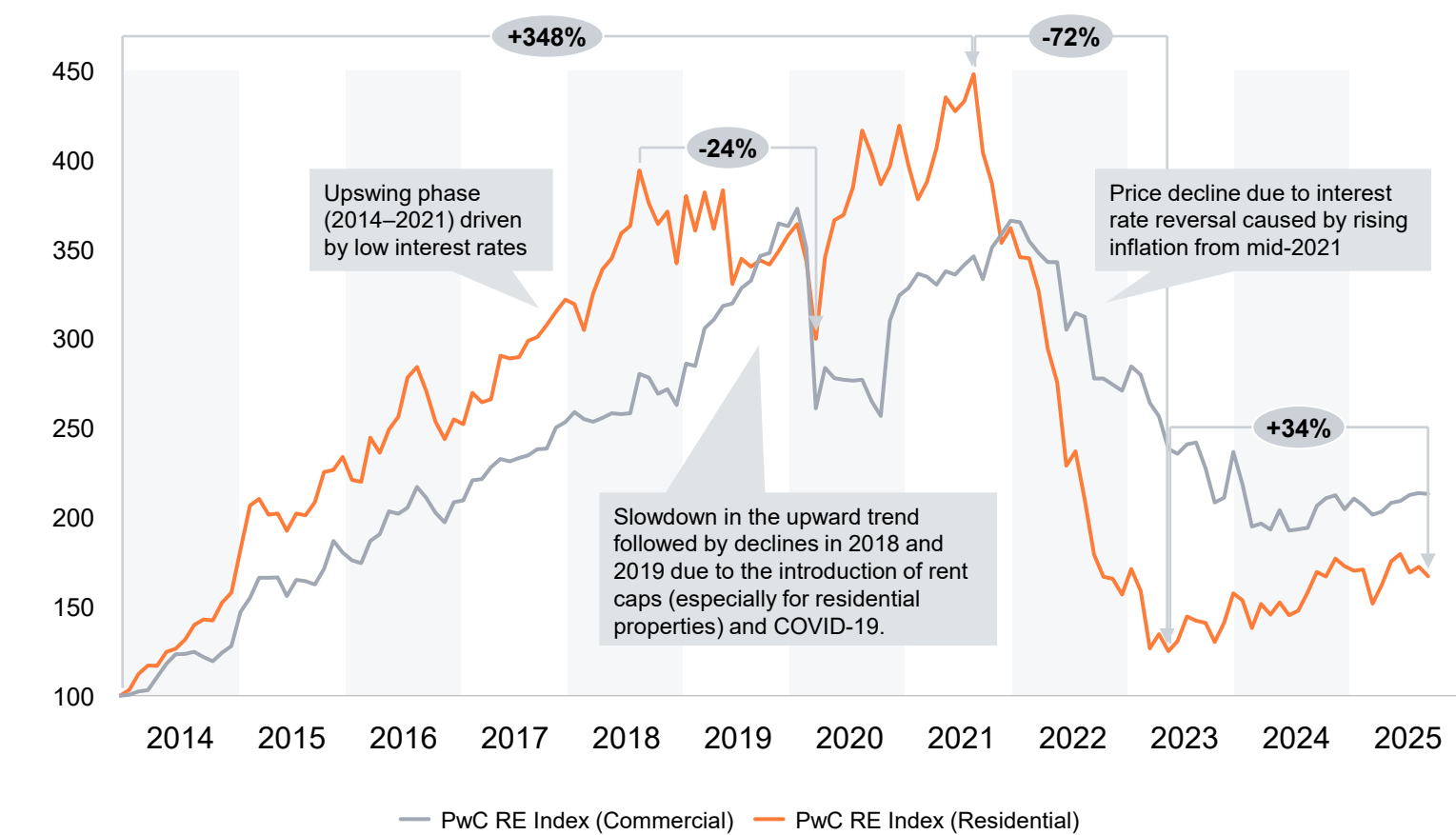


Real Estate Equity Indices: Early Signs of Stabilization Amid Persisting Structural Challenges

PwC Real Estate Indices

- The PwC Real Estate Indices are total return indices tracking the average share price performance of listed German property companies, separately for the residential and commercial sectors. Equally weighted, they offer a broad reflection of investor returns and sentiment in the real estate equity market.
- The latest figures point to an ongoing adjustment in Germany’s listed real estate markets.
- **PwC Residential Real Estate Index** remains well below its 2021 peak. However, recent months indicate cautious signs of recovery, supported by solid rental fundamentals, continued demand for energy-efficient housing, and a temporarily less dynamic inflation environment. Still, the uptick in inflation to 2.4% in September 2025 underlines the fragility of this recovery amid Germany’s weak economic outlook.
- **PwC Commercial Real Estate Index** has posted modest gains in 2025. Yet structural challenges persist, particularly in the office segment, where vacancy rates continue to rise and rental growth slows. Investors are increasingly focused on prime assets, while largely avoiding secondary locations. This growing market dispersion highlights the rising importance of asset quality, location, and the potential to accommodate evolving tenant needs.

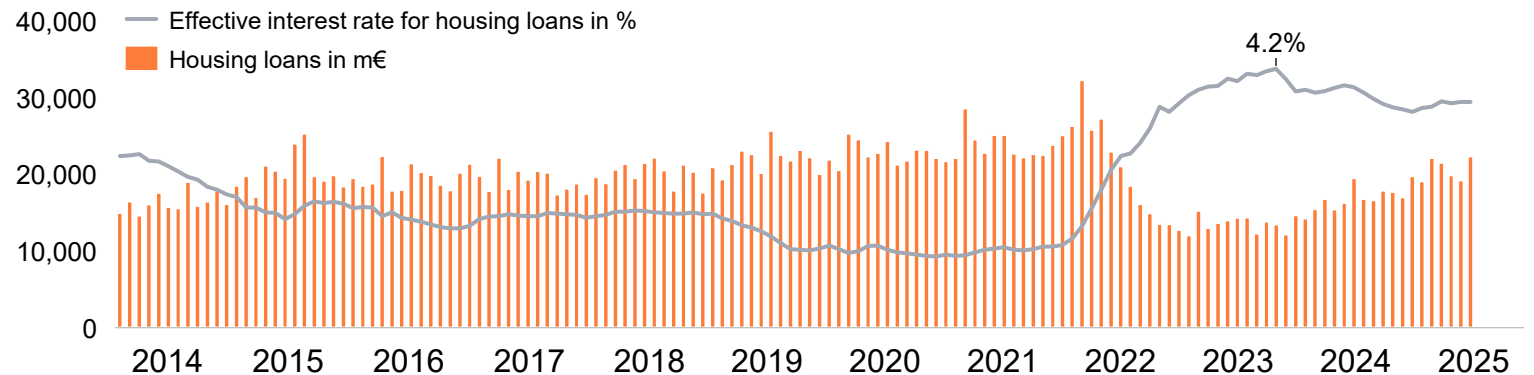
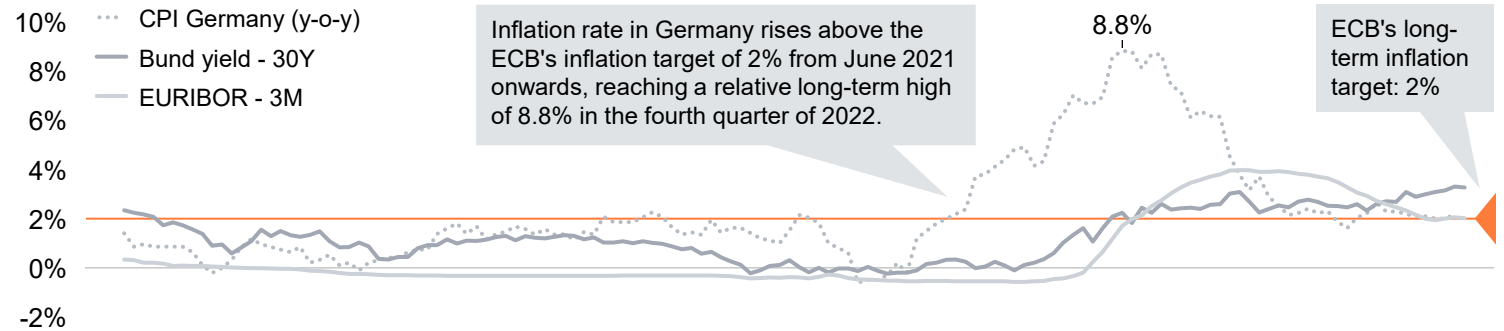
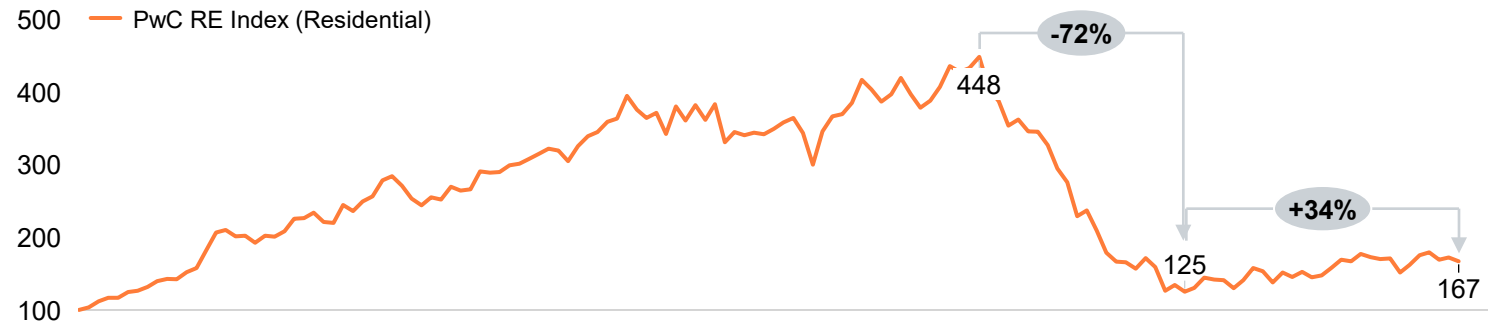
Sources: S&P Market Intelligence, PwC Real Estate Institute



Performance Sep-25	YTD	1 month	3 months	6 months	1 year	2 years	3 years	5 years
Commercial	4.2%	-0.3%	1.9%	5.8%	3.2%	-6.3%	-23.3%	-19.7%
Residential	-3.2%	-3.1%	-7.0%	10.1%	-1.4%	18.5%	-6.8%	-58.6%

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

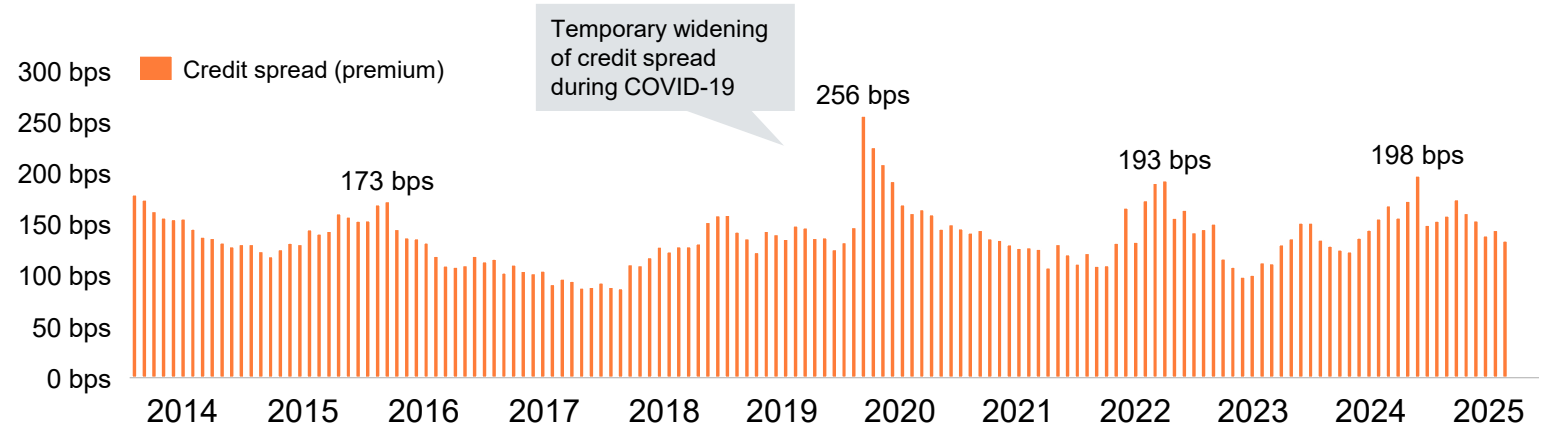
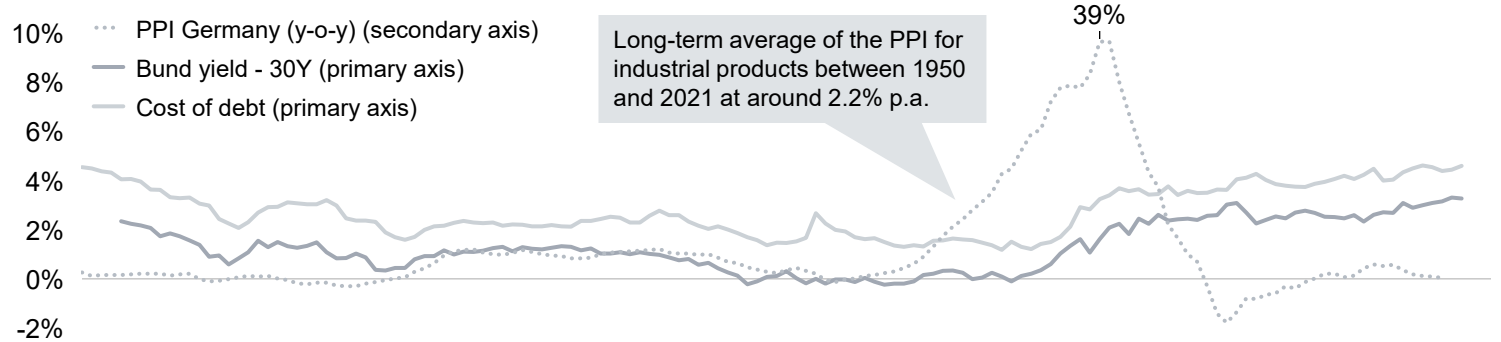
- The sharp repricing in listed residential real estate equities since 2021 reflects a fundamental shift in investor expectations following the end of the ultra-low interest rate environment.
- Capital market sentiment has adjusted ahead of real economy data, as is often the case in late-cycle corrections.
- **PwC Residential Real Estate Index** captures this adjustment and now signals early signs of stabilization.
- Investors are gradually regaining confidence, supported by improved visibility on monetary policy, narrowing credit spreads, and firm rental dynamics.
- In 2025, stabilizing interest rate expectations and slowing inflation have supported a cautious rebound in residential equities.
- In some cases bond spreads have narrowed, providing relief in selected financing markets. Robust rental fundamentals and continued demand for housing provide additional support for investor confidence.
- Outside institutional markets, the private housing sector has shown tentative signs of recovery. After a sharp contraction in lending volumes during 2022, new mortgage origination has picked up since mid-2023, indicating renewed household appetite for residential investments in structurally attractive regions.



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

Cautious Outlook for Commercial Real Estate Amid Elevated Financing Costs and Sectoral Imbalances

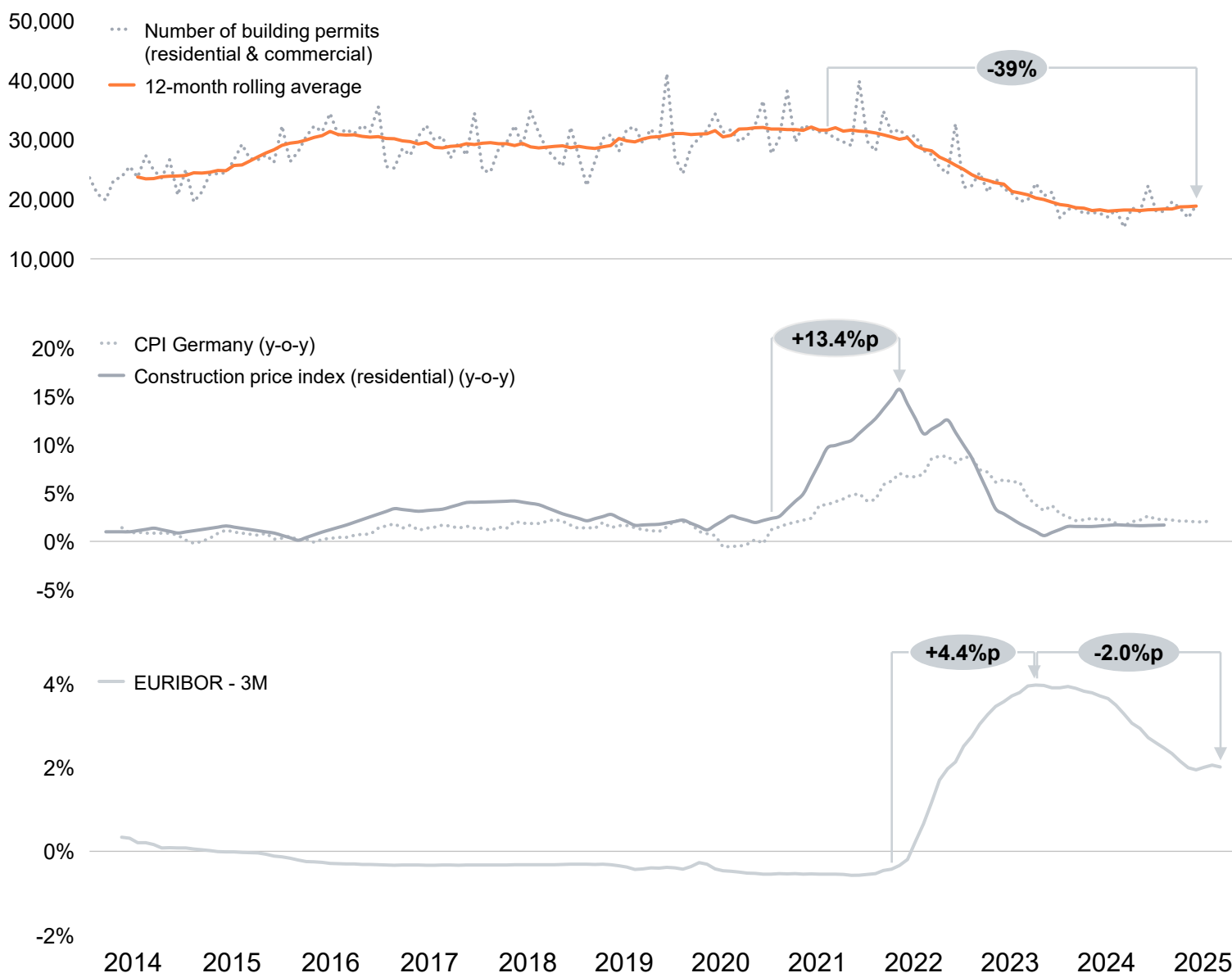
- The recent repricing in listed commercial property holders reflects an extended correction driven by tighter financial conditions and a shift in investor risk appetite. Since 2022, the sector has come under substantial pressure as refinancing costs increased, credit spreads widened, and long-term interest rates adjusted to a new monetary environment. In many cases, share prices remain significantly below their previous highs.
- While policy rates have begun to stabilise, capital markets continue to demand elevated risk premiums for commercial property issuers, particularly those exposed to structurally challenged segments such as office. Investor sentiment remains cautious. Persistent vacancy, subdued rental growth, and uncertainty surrounding long-term office demand continue to weigh on capital flows.
- Even prime assets are now required to meet more stringent thresholds for quality, location, and future adaptability.
- A broad-based recovery in listed commercial real estate is unlikely without a sustained easing of refinancing conditions, clearer signs of sectoral rebalancing, and a gradual narrowing of credit spreads. Until these factors materialise, capital allocation will remain highly selective, focusing on resilient asset classes and core urban locations.



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

Surging Construction Costs and Elevated Rates Have Weighed on Building Activity

- Construction costs and financing expenses remain major constraints for the German real estate market. The “Baupreisindex” for residential buildings rose by 3.2% year over year in February 2025. Moreover, material and labour costs in sectors such as roofing, insulation, and structural components have also increased significantly.
- Meanwhile, building permit volumes have declined sharply. In 2024, only 215,900 new residential approvals were granted, the lowest level since 2010, a 16.8% drop from 2023.
- In May 2025, new building permits (residential & commercial) stood at 13,691 units. The drop in permits reflects postponed projects, tighter margins, and heightened risk perceptions, especially for non-core or speculative developments.
- Forecasts suggest a modest recovery in real construction spending (approx. +1.3 % in 2025). But even if inflation moderates, built-in cost levels remain significantly above the pre-2021 baseline.
- In this environment, developers and investors will need rigorous cost control and careful project planning. Structural margin pressure remains a key risk, particularly for complex developments or weak micro-locations.

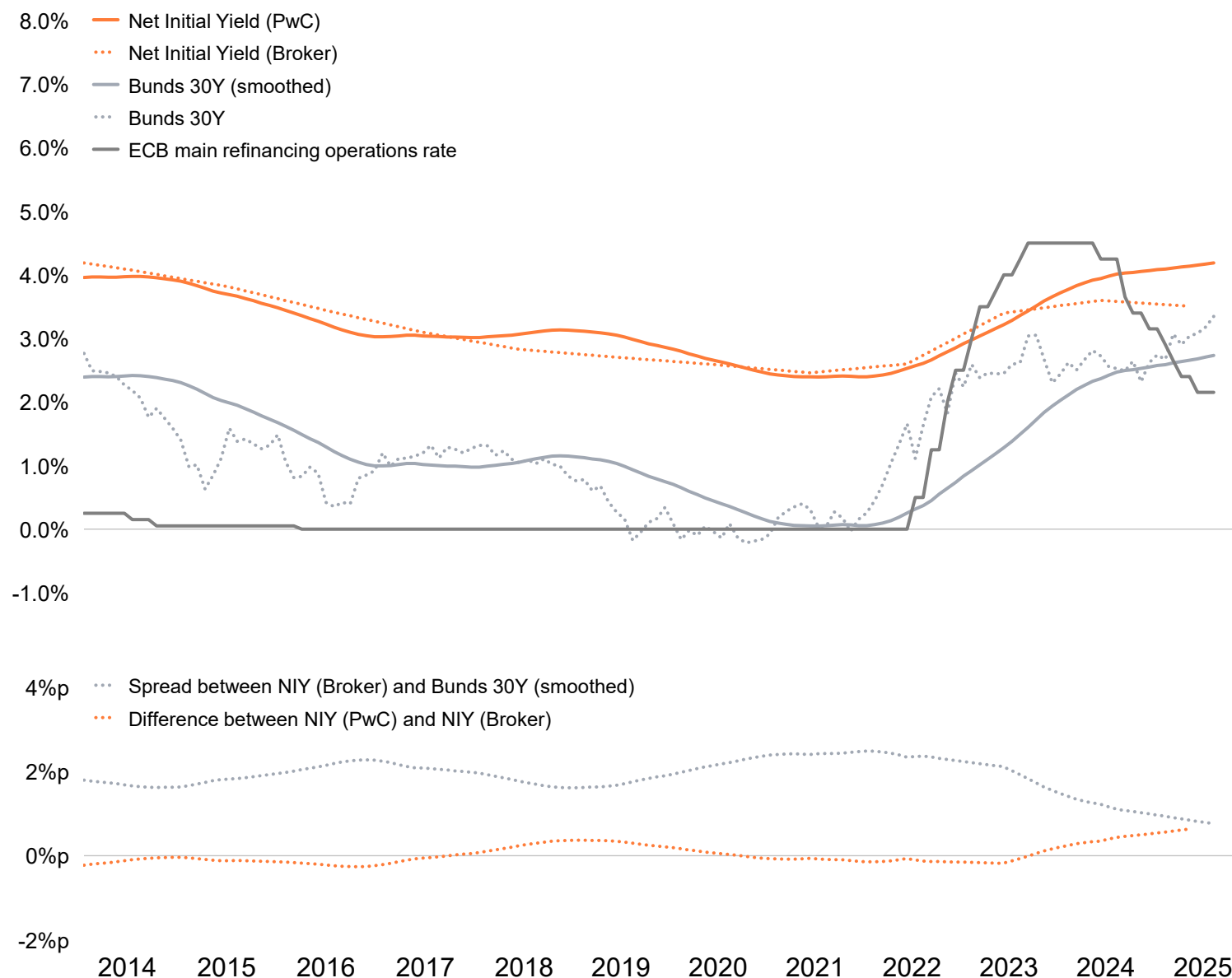


Sources: Destatis, Deutsche Bundesbank, PwC Real Estate Institute

Residential Property Yields Show Signs of Stabilisation While Market Expectations Shift

- Residential real estate yields in Germany have shown tentative signs of stabilization in 2025. Capital market rates have since eased slightly, and inflation momentum has slowed, supporting the view that yields for core residential assets may have peaked for the current cycle.
- While yields derived from market transactions or broker consensus appear stable, they remain subject to a degree of uncertainty. Historical comparisons suggest that the current spreads between residential yields and long-term government bonds are narrower than in previous cycles. This could indicate that market participants are already pricing in a normalisation of financing conditions and an eventual decline in risk premiums. Such a development would not be unprecedented. Real estate yield adjustments often anticipate changes in interest rate expectations and relative attractiveness compared to fixed income alternatives. However, with central banks maintaining a cautious stance and inflation risks not fully resolved, the durability of this spread compression remains uncertain.
- Overall, the current constellation of yields and capital market rates suggests that parts of the market may be anticipating a more benign macro-financial environment. Whether these expectations will be realised depends on the trajectory of monetary policy and investor risk perception in the coming quarters.

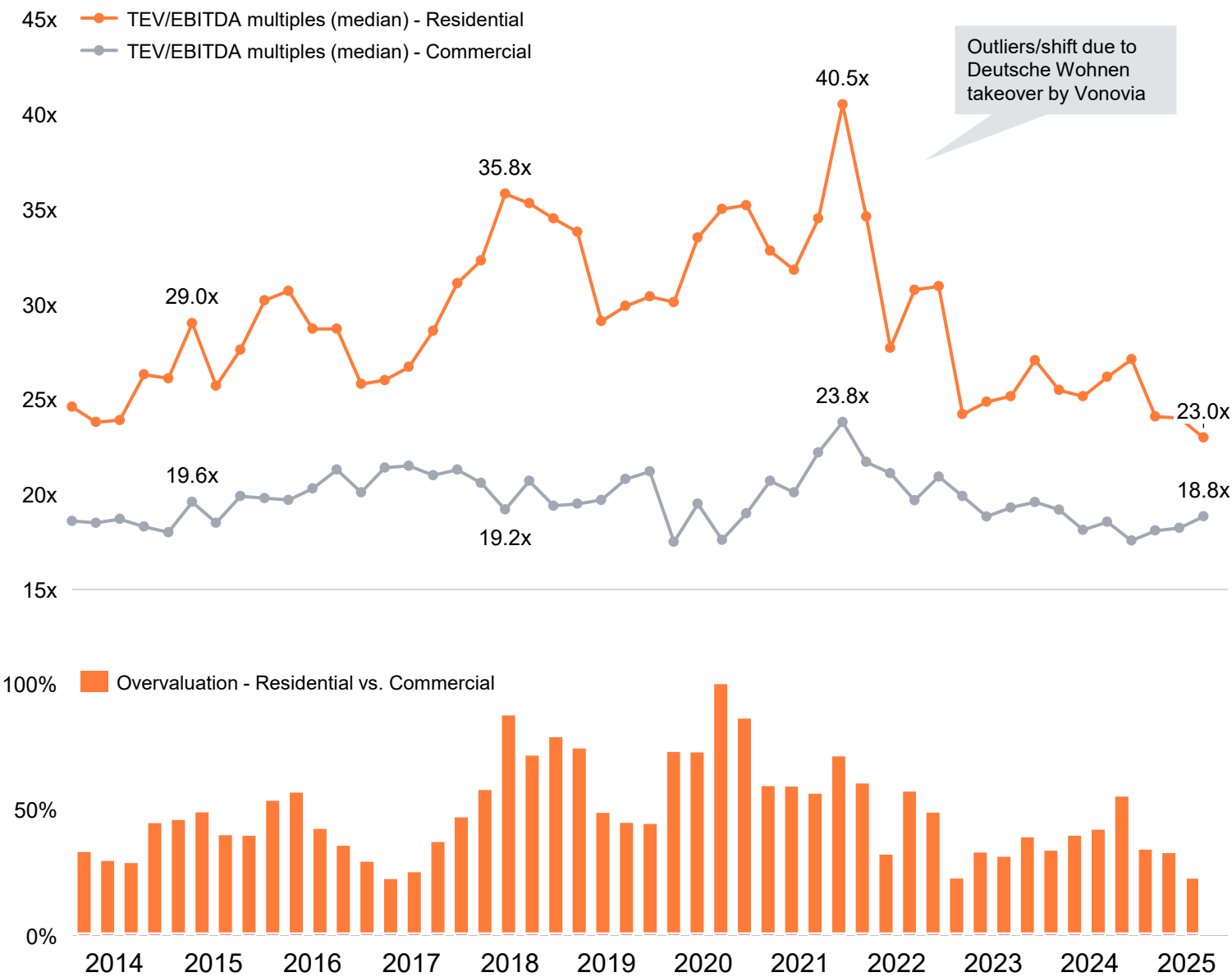
Source: PwC Analysis of broker reports (Net Initial Yield (NIY) according to INREV: Passing rent/net operating income divided by gross property value)



The narrow 2025 spread between residential and commercial real estate equities echoes prior phases of cyclical repricing and sentiment shifts

- The current compression in valuation multiples between residential and commercial real estate equities reflects the extent of the repricing that has occurred across both sectors since the onset of monetary tightening in 2022. While residential equities have seen deep corrections in response to rising financing costs and the reversal of ultra-low interest rates, commercial equities have come under growing pressure from structural headwinds in office markets, weak rental momentum, and persistent vacancy.
- The resulting narrowing of the TEV to EBITDA spread between residential and commercial property holders is notable in a historical context. It suggests that capital markets are currently assigning a broadly similar level of risk-adjusted return expectations to both sectors, despite their fundamentally different income profiles and structural outlooks. In particular, the unusually low overvaluation for residential equities may signal that current market pricing has already anticipated a gradual recovery in that segment.
- Conversely, the compressed spread may also reflect heightened risk aversion toward commercial assets, where investor confidence remains constrained by macro uncertainty and limited visibility on long-term space demand. As such, the current convergence in multiples should be interpreted less as an equilibrium and more as a reflection of ongoing market uncertainty.

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

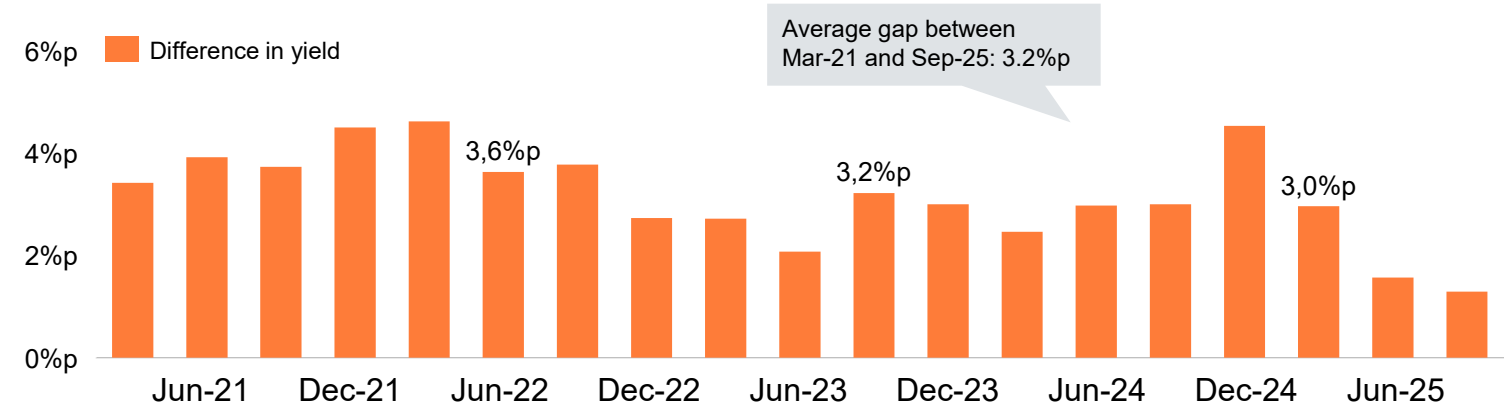
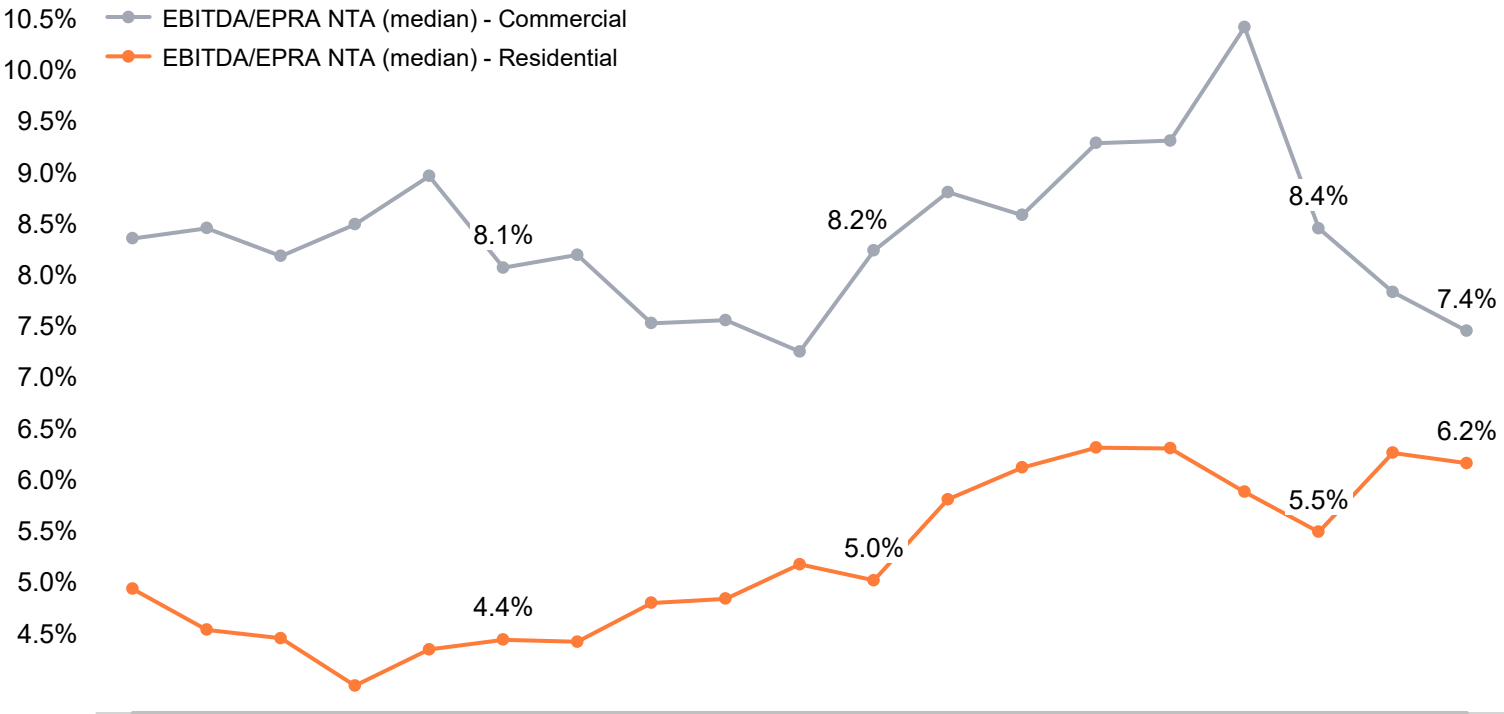


EBITDA-to-NTA Metrics

Reflect Diverging Trends Across Real Estate Segments

- The EBITDA-to-NTA ratio offers a capital markets lens on the operational return generated by real estate companies relative to the fair market value of their underlying property assets. In the German market, these metrics offer insight into how investors assess earnings power against adjusted net asset values, which are typically based on external valuations under IAS 40.
- In the residential segment, the ratio has gradually recovered in 2025 following a sharp contraction during the 2022-2023 correction. This reflects two main dynamics. First, residential landlords have maintained solid rental performance, underpinned by structural demand, tight housing supply, and inflation-linked lease structures. Second, companies have significantly marked down the fair values of their portfolios in recent periods. As a result, the operational return relative to the marked-down asset base appears more favourable, even as capital values remain well below previous cycle peaks.
- By contrast, the commercial segment continues to face structural challenges. While some rental streams have stabilised, office-oriented portfolios remain under pressure due to rising vacancy, slow re-letting activity and persistent tenant incentives. Meanwhile, fair value adjustments have generally been less pronounced than in the residential space. In many cases, appraisers still factor in recovery assumptions that may take time to materialise. This disconnect results in a structurally lower EBITDA-to-NTA ratio, reflecting both weaker cash generation and less conservative asset valuations.

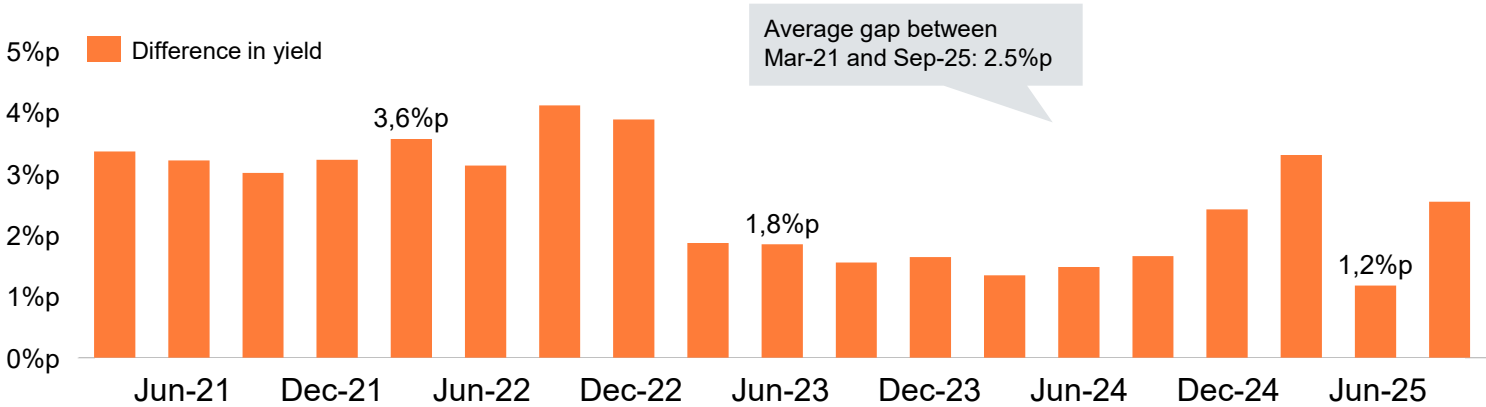
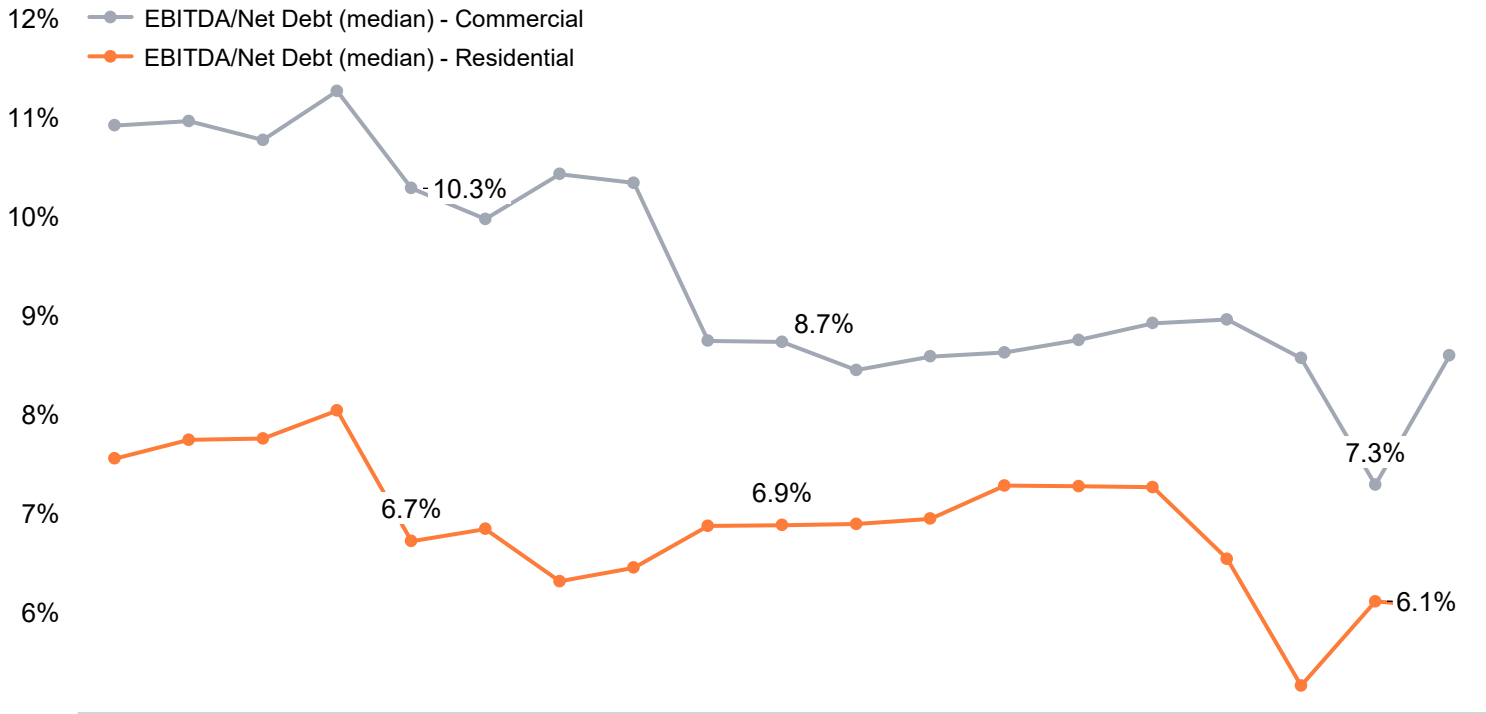
Sources: Annual and quarterly reports, S&P Market Intelligence, PwC Real Estate Institute



EBITDA-to-Net Debt: Diminished Debt Capacity Amid Margin Pressure and Financing Costs

- The EBITDA-to-Net-Debt ratio provides a forward-looking perspective on the debt servicing capacity of real estate companies based on current earnings levels. In both residential and commercial segments, the ratio has declined noticeably since early 2024, highlighting increasing pressure on operating margins and refinancing conditions.
- In the residential sector, the decline is not due to revenue weakness. Rent dynamics remain supported by structural demand, indexation clauses, and tight housing supply. However, rising interest expenses, elevated cost inflation, and higher maintenance outlays are eroding earnings, reducing the ability to service debt. This pressure is particularly evident in leveraged portfolios facing refinancing at higher market rates.
- In commercial real estate, the downward trend reflects a combination of factors. While financing costs have risen, net operating income remains under strain in structurally challenged subsegments, especially office. Persistent vacancy, lower re-letting momentum, and increased tenant incentives weigh on earnings.
- The narrowing gap between residential and commercial EBITDA-to-Net-Debt ratios reflects the convergence of cost-side pressures and rising market scepticism around earnings resilience across both segments.

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



German Residential Real Estate 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

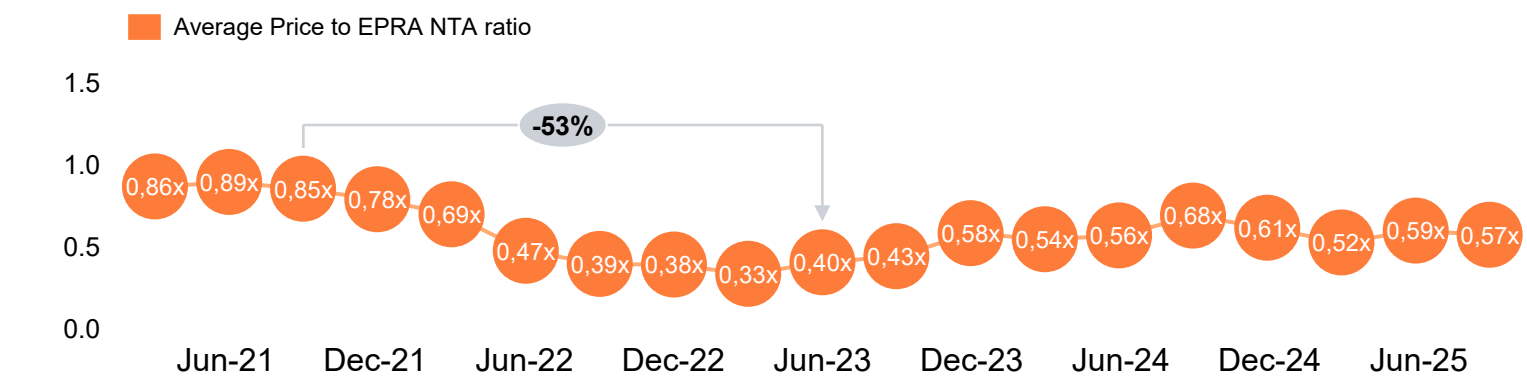
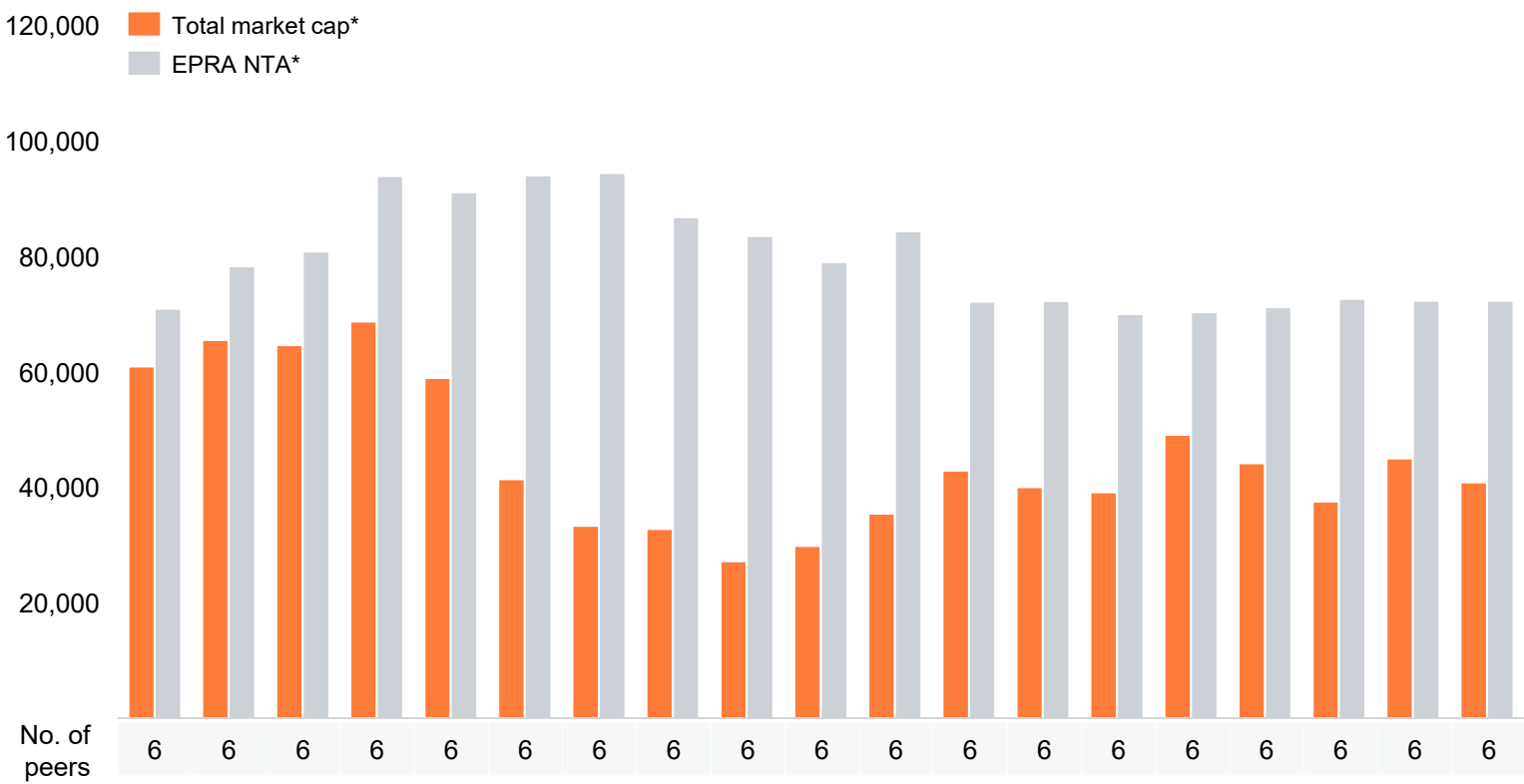
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Price to EPRA NTA

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

Deutsche Wohnen SE	0.52x
Grand City Properties S.A.	0.45x
LEG Immobilien SE	0.52x
Phoenix Spree Deutschland Limited	0.53x
TAG Immobilien AG	0.78x
Vonovia SE	0.59x
Average	0.57x

* 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

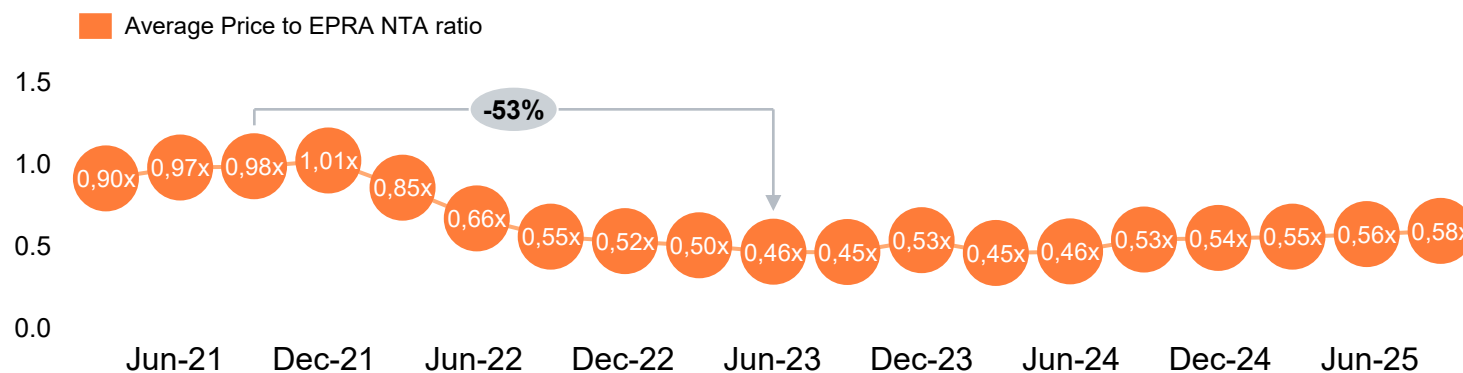
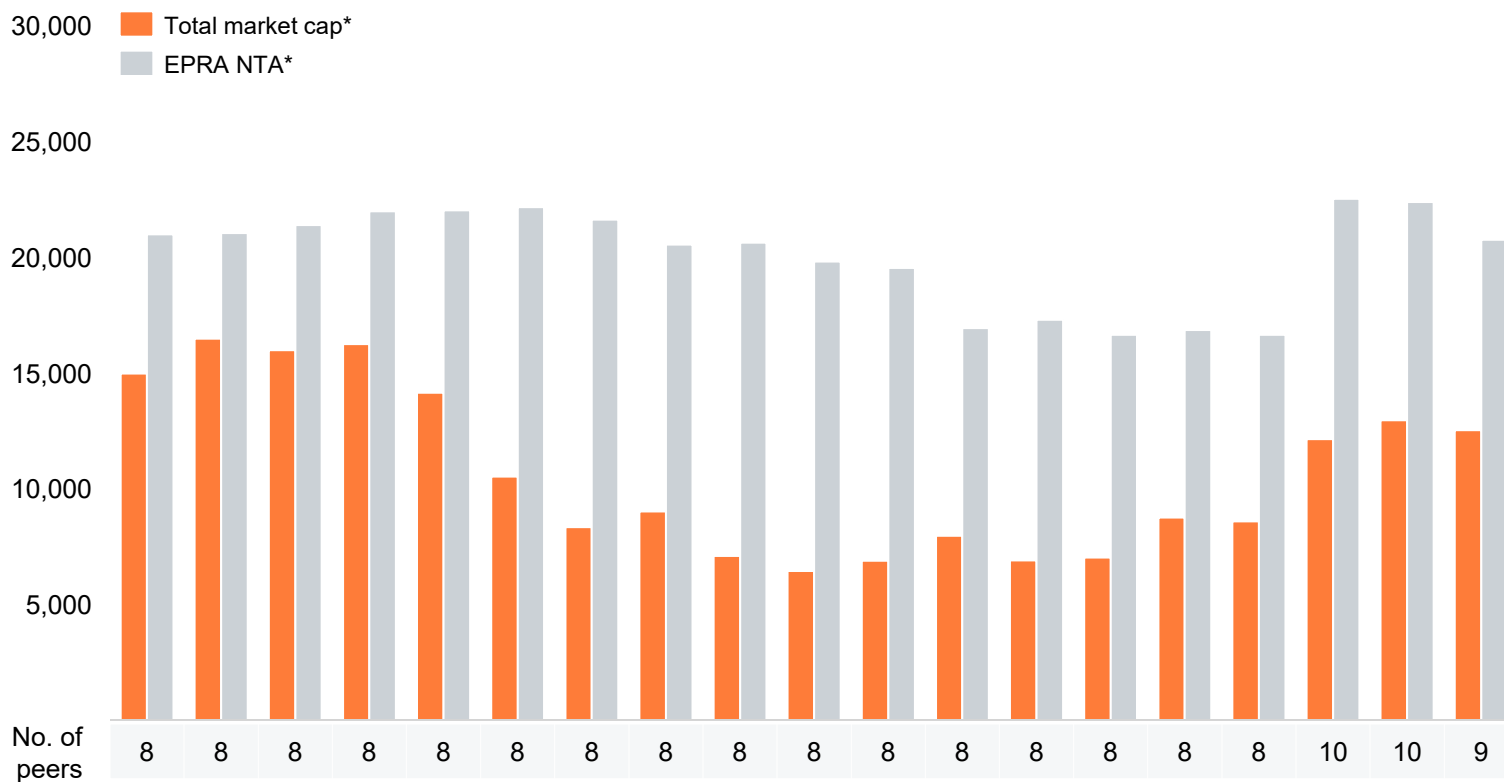
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$$\frac{\text{Market capitalisation}}{\text{EPRA Net Tangible Asset}} = \text{Price to EPRA NTA}$$

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

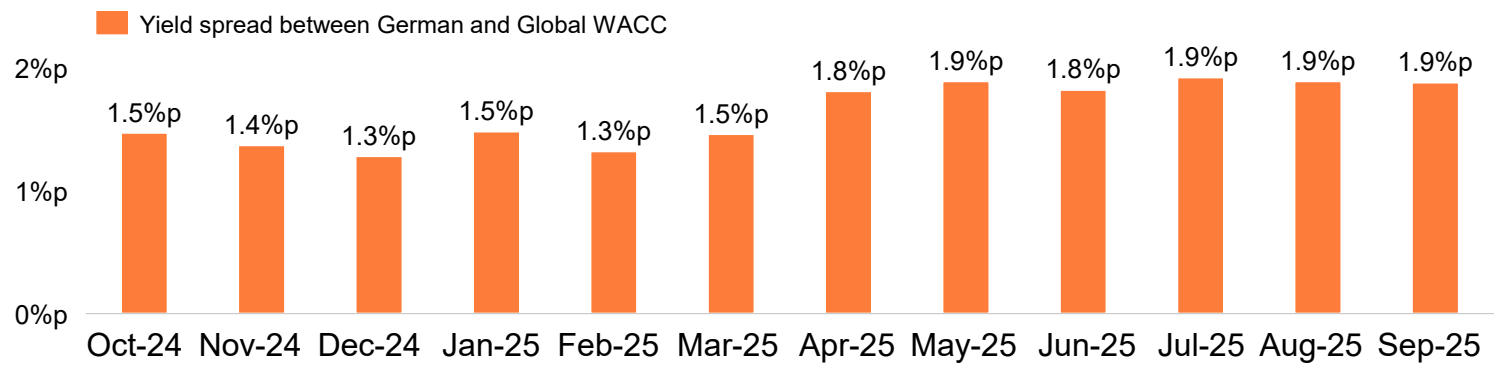
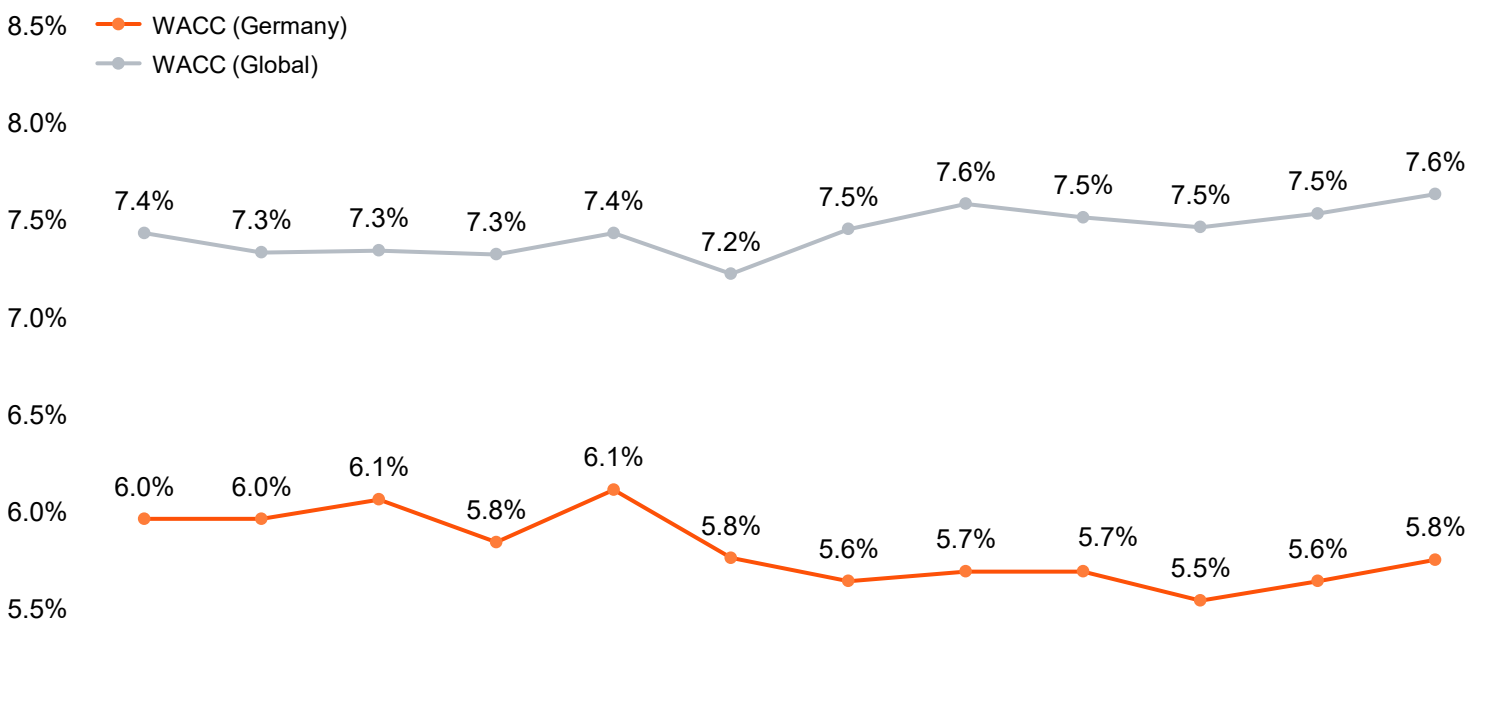
alstria office REIT-AG	n/a
Aroundtown SA	0.42x
Branicks Group AG	0.29x
CA Immobilien Anlagen AG	0.75x
Deutsche EuroShop AG	0.68x
Deutsche Konsum REIT-AG	0.26x
Hamborner REIT AG	0.60x
Sirius Real Estate Limited	0.94x
VGP NV	1.07x
VIB Vermögen AG	0.25x
Average	0.58x

* 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 German real estate companies remains structurally lower than that of many global peers.
- In Q3 2025, the WACC differential is around 190 bps, reflecting a sustained yield spread that has emerged in the post-repricing environment.
- This divergence is underpinned by market perceptions of Germany still being a comparatively stable investment environment, supported by low currency risk, prudent regulation, and conservative capital structures. As a result, both debt and equity investors tend to apply lower risk premiums, resulting in structurally reduced capital costs.
- Since early 2025, German WACC has stabilized, reflecting improved market visibility and reduced funding volatility. By contrast, global peers continue to face elevated capital costs, shaped by tighter credit markets, geopolitical uncertainty, and ongoing repricing of risk.
- For investors, this yield spread remains a useful signal. It underscores the comparative resilience of the German real estate market in capital cost terms, while also pointing to differentiated risk pricing across regional real estate markets. Notably, institutional investors continue to allocate to Germany selectively, particularly in residential and logistical segments, while maintaining caution in commercial property exposure.



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	30/09/2025	31/12/2023	31/12/2024	30/09/2025
KPI (FFO and NAV) as of	FY2023	FY2024	TFQ2025	31/12/2023	31/12/2024	30/06/2025
Residential						
Deutsche Wohnen SE	17.6x	18.2x	16.0x	0.56x	0.55x	0.52x
Grand City Properties SA	9.4x	10.8x	10.5x	0.43x	0.47x	0.45x
LEG Immobilien SE	12.9x	13.3x	10.6x	0.63x	0.65x	0.52x
Phoenix Spree Deutschland Limited				0.50x	0.58x	0.53x
TAG Immobilien AG	13.5x	14.4x	15.6x	0.72x	0.75x	0.78x
Vonovia SE	12.9x	13.4x	11.7x	0.61x	0.65x	0.59x
25%-Percentile	12.9x	13.3x	10.6x	0.52x	0.56x	0.52x
Average	13.3x	14.0x	12.9x	0.58x	0.61x	0.57x
75%-Percentile	13.5x	14.4x	15.6x	0.63x	0.65x	0.58x
Commercial						
alstria office REIT-AG	7.4x	16.9x		0.40x	0.84x	
Aroundtown SA	8.2x	10.1x	11.5x	0.34x	0.39x	0.42x
Branicks Group AG	5.4x	3.6x	3.0x	0.28x	0.32x	0.29x
CA Immobilien Anlagen AG			17.5x			0.75x
DEFAMA Deutsche Fachmarkt AG	12.0x	13.4x	13.8x			
Deutsche EuroShop AG	10.1x	8.9x	9.2x	0.71x	0.63x	0.68x
Deutsche Konsum REIT-AG	3.9x	5.9x	6.9x	0.31x	0.35x	0.26x
Deutsche Real Estate AG	12.0x	7.9x	7.5x			
FCR Immobilien AG	17.0x	14.8x	16.1x			
Hamborner REIT AG	10.1x	9.9x	9.6x	0.68x	0.64x	0.60x
Sirius Real Estate Limited	13.4x	11.9x	13.6x	1.15x	0.86x	0.94x
VGP NV						1.07x
VIB Vermögen AG	6.3x	4.2x	3.4x	0.34x	0.28x	0.25x
25%-Percentile	6.9x	6.9x	6.1x	0.33x	0.34x	0.27x
Average	9.6x	9.8x	9.3x	0.53x	0.54x	0.53x
75%-Percentile	12.0x	12.6x	13.6x	0.69x	0.69x	0.73x

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