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Real Estate Monitor

Recovery Interrupted: German Real Estate Caught Between Income Resilience and a New Geopolitical Risk Regime

Deals | Valuation, Modeling & Analytics
May 2026 | Q1-2026

Voices from the Industry: Uncertainty, Supply Gaps & Geopolitical Risks in Annual Reports

On the whole, 2025 was defined by considerable **uncertainty**, with **existing conflicts** and tensions still undermining the confidence of investors and consumers worldwide. These factors, coupled with the **US trade and tariff policy**, have led to prolonged distortions in the global economies and therefore also on the international capital markets […]

VONOVIA Vonovia SE, Annual Report 2025, Combined Management Report – Report on Economic Position, p. 42. Author: Luka Mucic (CEO). March 2026

The war with Iran that has now begun is causing further **uncertainty** among our customers, investors and other financial backers. […] Indirect effects, such as **increasing energy prices**, **inflation**, **interest rate developments**, as well as other impacts on the capital markets, are currently not assessable but are being actively observed.

Deutsche Wohnen *Deutsche Wohnen SE, Annual Report 2025, Combined Management Report – Forecast Report, p. 70. Author: Lars Urbansky (CEO). March 2026*

[…] It became evident in 2025 that construction and real estate financing rates decoupled increasingly from the **ECB's policy rate** development. Credit spreads for property financing widened. […] As a consequence, **real estate financing costs did not decline in line with central bank rates.**

Alstria *alstria, Annual Report 2025, Combined Management Report – Interest Rate Risks, p. 56. Author: Olivier Elamine (CEO) / Board of Managers. March 5, 2026*

The recent military escalation in the Middle East, particularly the tense developments surrounding Iran and potential restrictions on oil and gas shipments through the Strait of Hormuz, has led to **significantly higher energy prices** and volatile reactions in the capital markets.

CA IMMO *CA Immobilien Anlagen AG, Annual Report 2025, Foreword by the Management Board – Outlook 2026, p. 4. Author: Keegan Viscius (CEO). March 26, 2026*

"Construction investment fell for the fifth year in a row, declining by 0.9%. […] **high construction prices** and **higher financing costs** compared to the phase of low interest rates are likely to have meant that residential construction projects in particular were not realized […]

LEG LEG Immobilien SE, Annual Report 2025, Group Management Report – Risk Reporting, p. 34. Author: Lars von Lackum (CEO). March 3, 2026

Executive Summary

Sector Bifurcation Deepens

- Residential stabilizes, backed by cash flow fundamentals and a recovery in private housing loans. Commercial faces compounding headwinds from office exposure, persistent credit spreads and deeper NAV discounts.
- Debt coverage improved in Q1 2026, driven by lower net debt rather than earnings growth, a picture that may shift once all FY2025 annual reports are published.
- The market is transitioning from rate-driven repricing to a cycle shaped by balance sheet strength and income sustainability.

Rate Hopes Evaporate – Inflation Risks Resurface

- The hoped-for interest rate cuts have effectively evaporated. The ECB has paused its easing cycle, citing trade policy unpredictability and geopolitical tensions, re-emerging inflation expectations are pushing yields and refinancing costs higher.
- Cost of debt increased by 7% in FY 2025, intensifying refinancing risk and restructuring burdens, particularly for highly leveraged real estate companies.
- German WACC has edged higher in Q1 2026 due to elevated beta factors, though it remains below global peers.

Yield Convergence Signals Mispriced Risk

- Prime NIYs persist at 3.5% while long-dated government bond yields continue to climb, the spread has fully compressed.
- No observable risk premium for real estate over sovereign debt remains, suggesting either underpriced real estate risk or a reassessment of sovereign bond safety.

Geopolitical Shocks Derail Recovery Momentum

- Q1 2026 marks a decisive setback: both PwC Real Estate Indices suffered ~12% losses in March, exposing the sector's sensitivity to external shocks.
- Escalating military conflicts, trade tensions and shifting US foreign policy have triggered a sharp reassessment of risk across asset classes.
- Geopolitical uncertainty has overtaken regulatory and financial constraints as the dominant risk shaping investor strategy in 2026.

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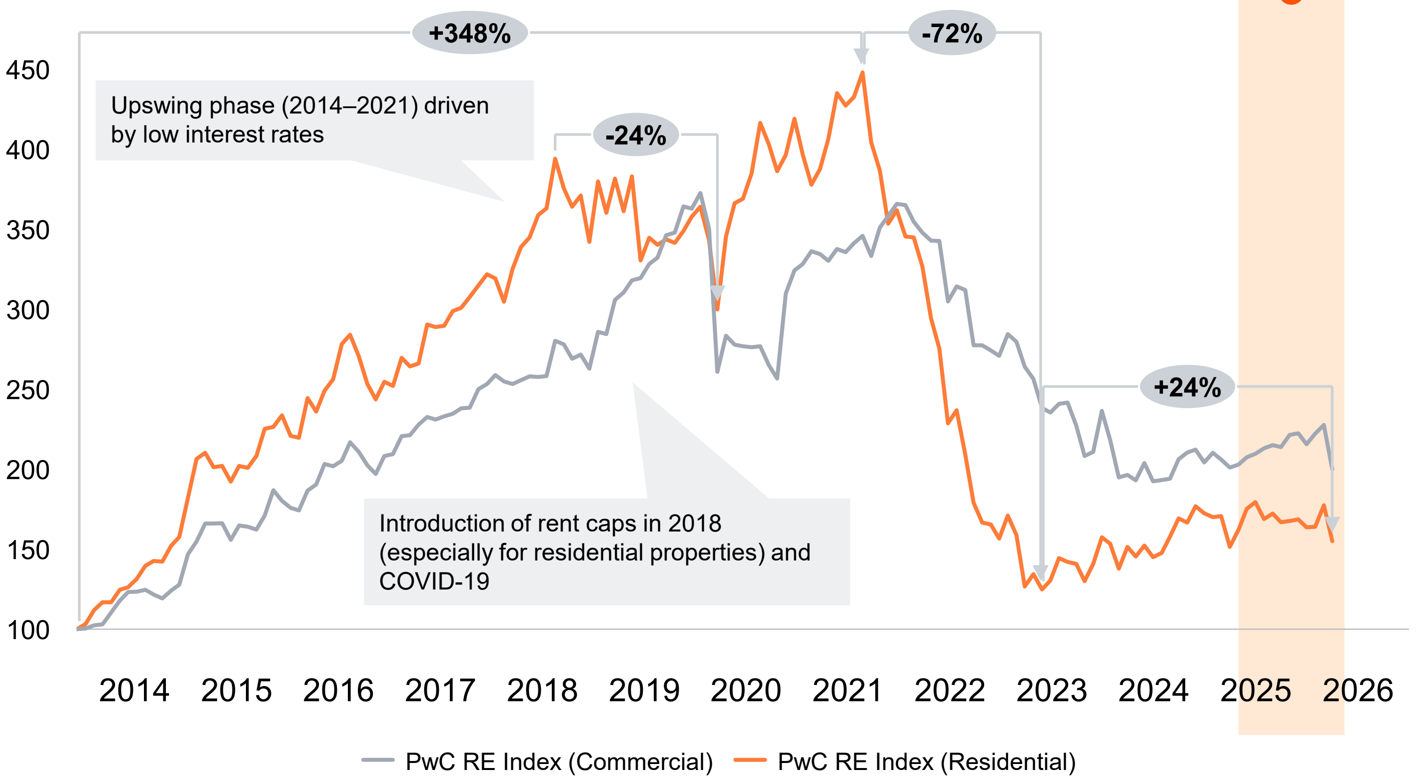
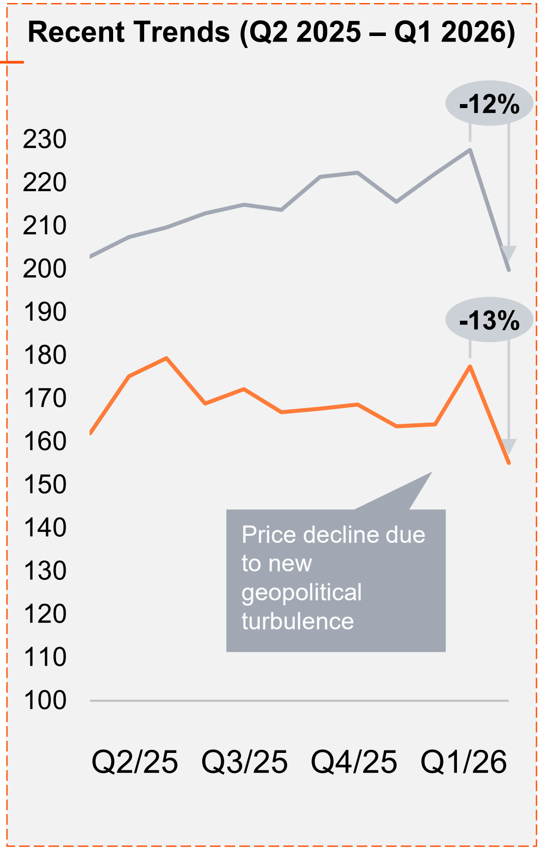
PwC Real Estate Indices: Sharp March Decline Exposes Listed Real Estate's Sensitivity to External Shocks





Performance Mar-26	YTD	1 month	3 months	6 months	1 year	2 years	3 years	5 years
Commercial	-7.3%	-12.2%	-7.3%	-6.5%	-0.6%	1.7%	-24.3%	-40.3%
Residential	-5.2%	-12.6%	-5.2%	-7.0%	2.4%	2.5%	22.6%	-60.0%

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

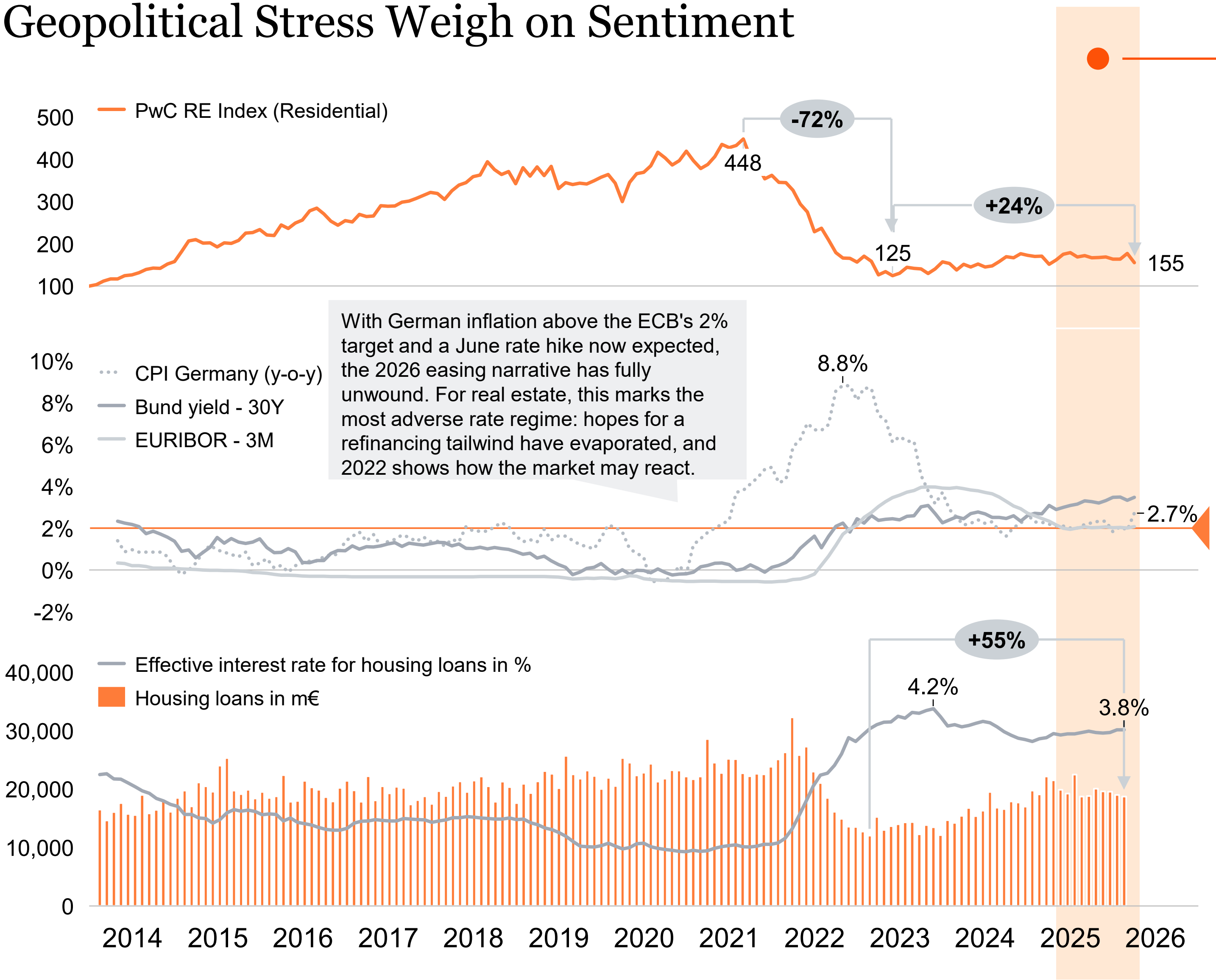
March 2026 marks the sharpest monthly drawdown since the 2022 rate shock, with both indices shedding ~12-13% in a single month.

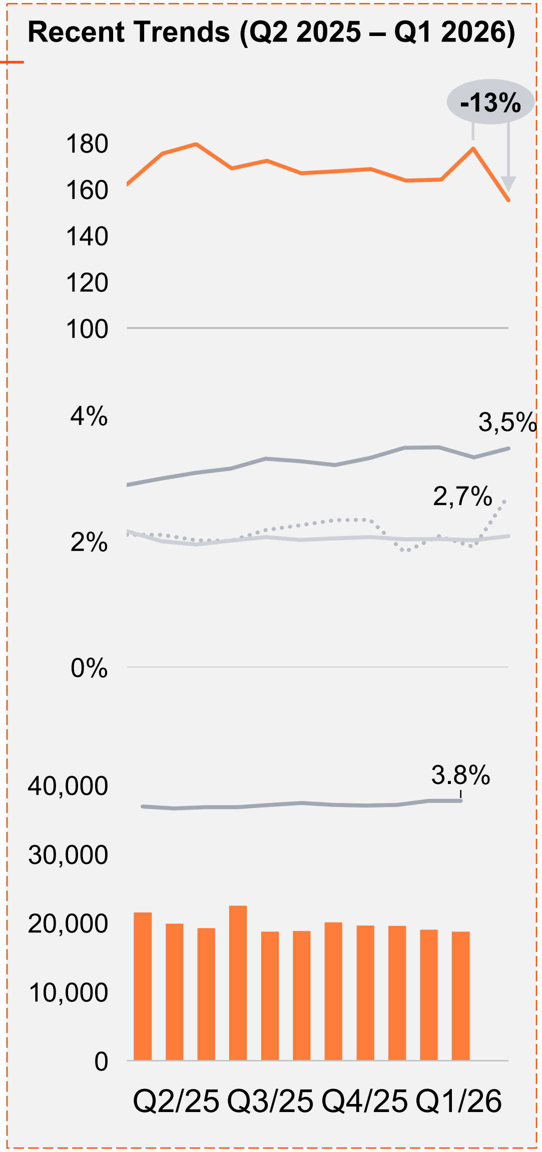
The losses wiped out the entire trailing twelve-month recovery: Commercial now sits at -0.6% YoY, Residential at just +2.4%.

The episode illustrates a structural feature of listed real estate: in the absence of daily transaction evidence, equity markets become the primary price-discovery mechanism for the sector – and they reprice geopolitical risk faster and more violently than direct markets.

The 5-year performance (-60% Residential vs. -40% Commercial) is a useful reminder: stable cash flows can not fully compensate for the share price development. Residential's cash flow stability has not insulated it from the rate-driven derating. On the contrary, its longer duration made it more rate-sensitive.

Residential Stabilization Remains Fragile as Rate Fears and Geopolitical Stress Weigh on Sentiment



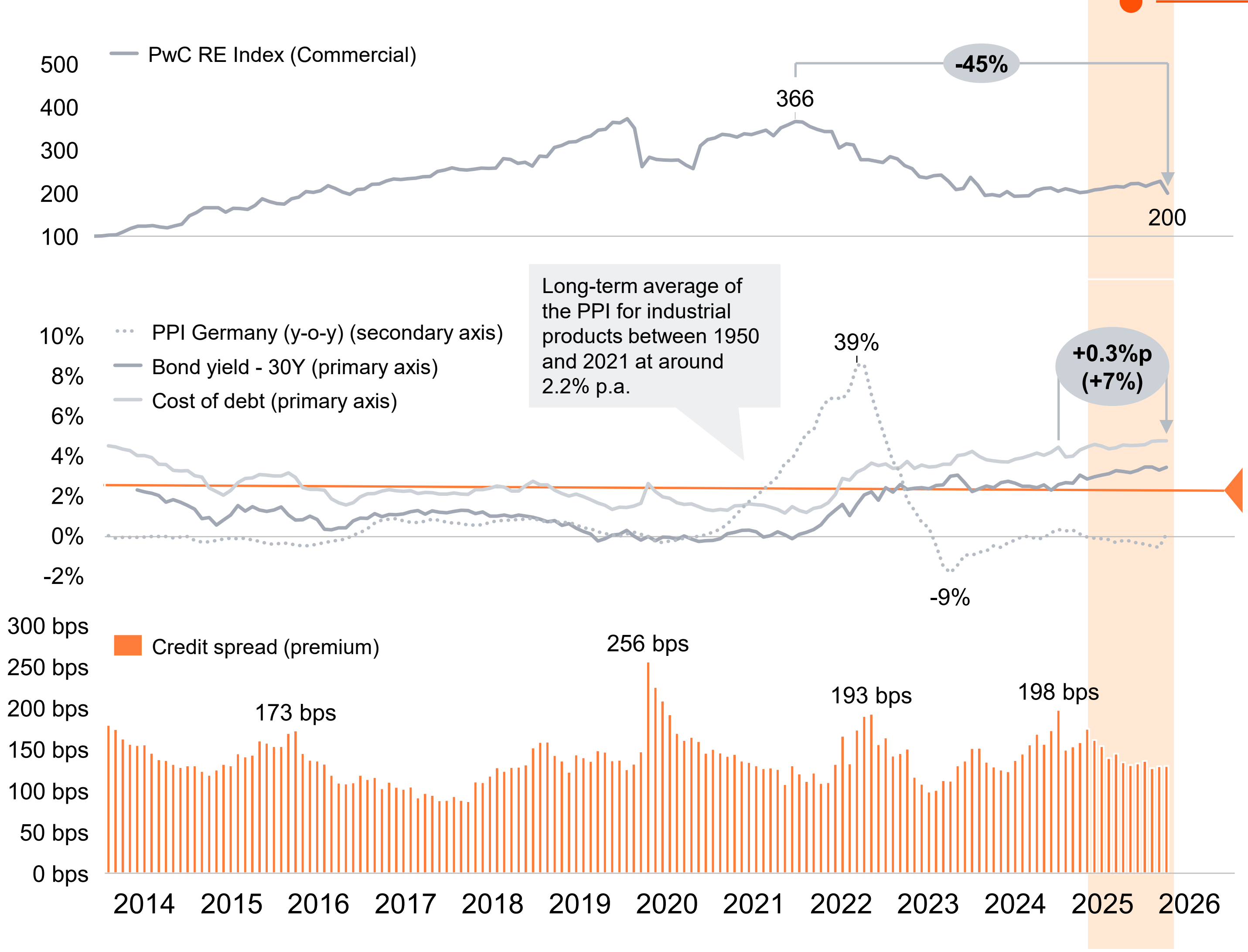


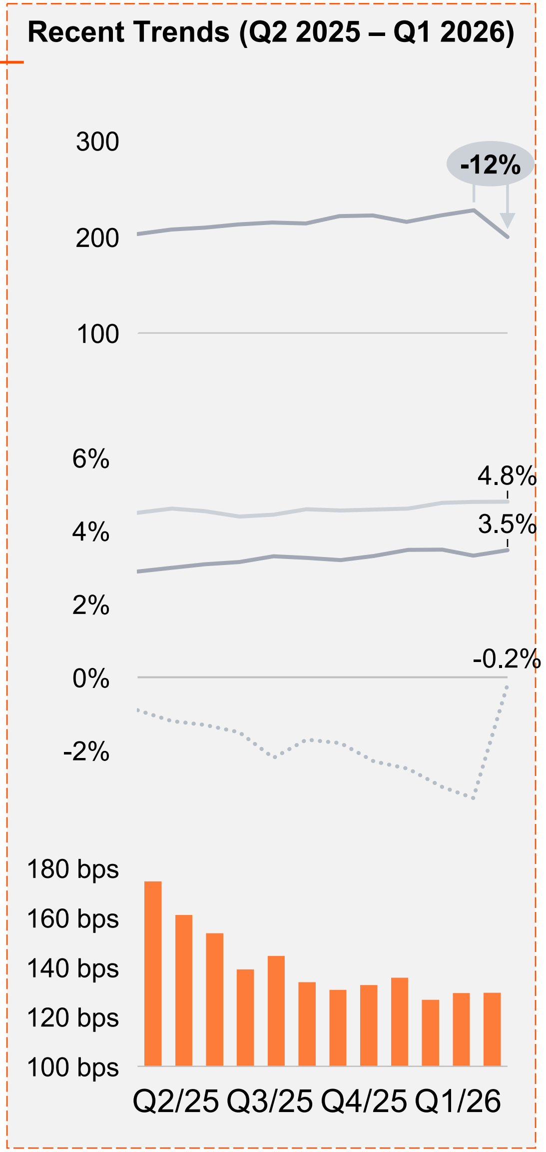
The residential real estate market shows only tentative signs of recovery, with investor sentiment still dampened by ongoing uncertainty.

Tensions in the Middle East, blockade of the Strait of Hormuz and respective rise in oil prices cause inflation to rise again in the short and medium term. Investors are already pricing this in through rising yields in the capital markets.

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

Commercial Recovery Derailed: Geopolitical Tensions Trigger Sharp Valuation Losses





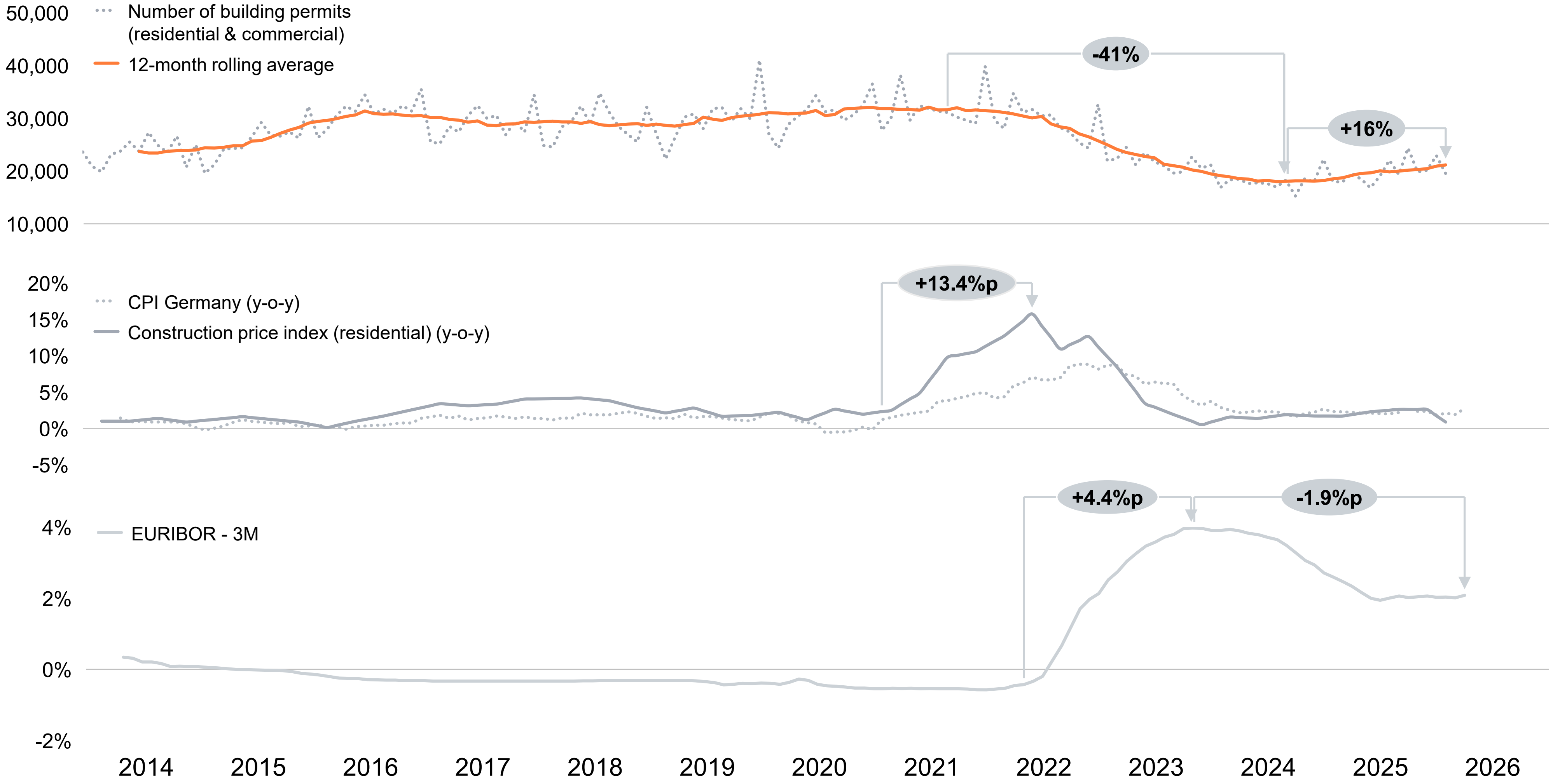
Growing geopolitical tensions have created significant uncertainty among investors, leading to a sharp decline in commercial real estate stock valuations.

At the same time, government bond yields and financing costs have started to edge upward again, with cost of debt up by +7% in 2025, renewing refinancing burdens for highly leveraged real estate companies.

The rate path is flipping from cuts to hikes: a June ECB tightening appears to be market consensus. For commercial real estate, already burdened by ~200 bps credit spreads and ~45% NAV discounts, the disappearance of the rate relief narrative removes one of the last anchors of the recovery thesis.

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

Building Permits Recover Slowly but Investor Uncertainty Threatens Future Development Volumes



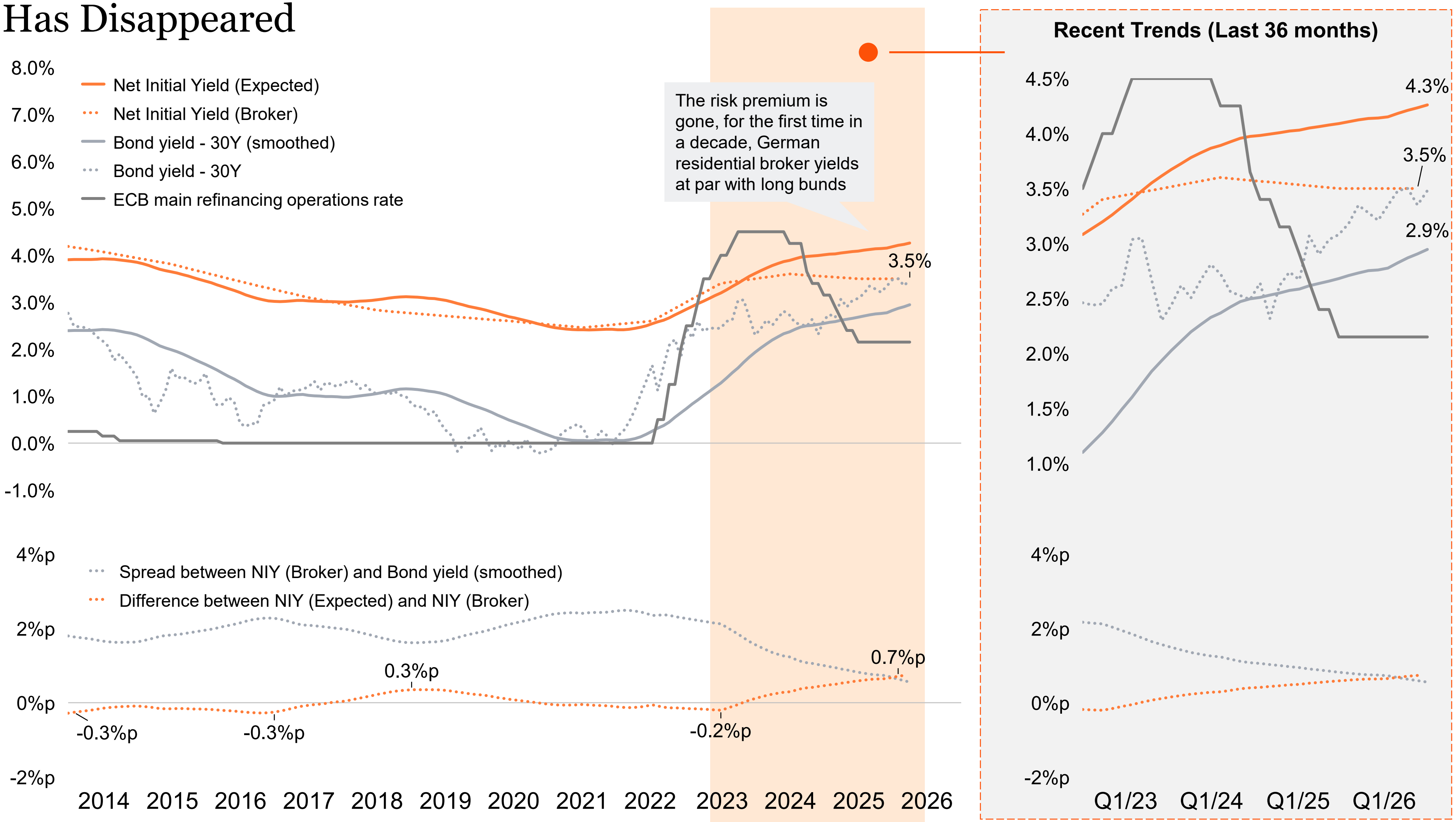
Sources: Destatis, Deutsche Bundesbank, PwC Real Estate Institute

Euribor remains stable for now, providing a degree of predictability in the current financing environment.

In line with the recovery observed in private housing loans, the number of building permits has also been on an upward trajectory, signaling a gradual rebound in construction activity.

However, growing investor caution and uncertainty may take their toll further down the line. The full impact of current market uncertainty could materialize with a time lag and weigh on future development volumes due to higher project development costs.

Yield Convergence: Residential Risk Premium for Real Estate over Sovereign Debt Has Disappeared



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)

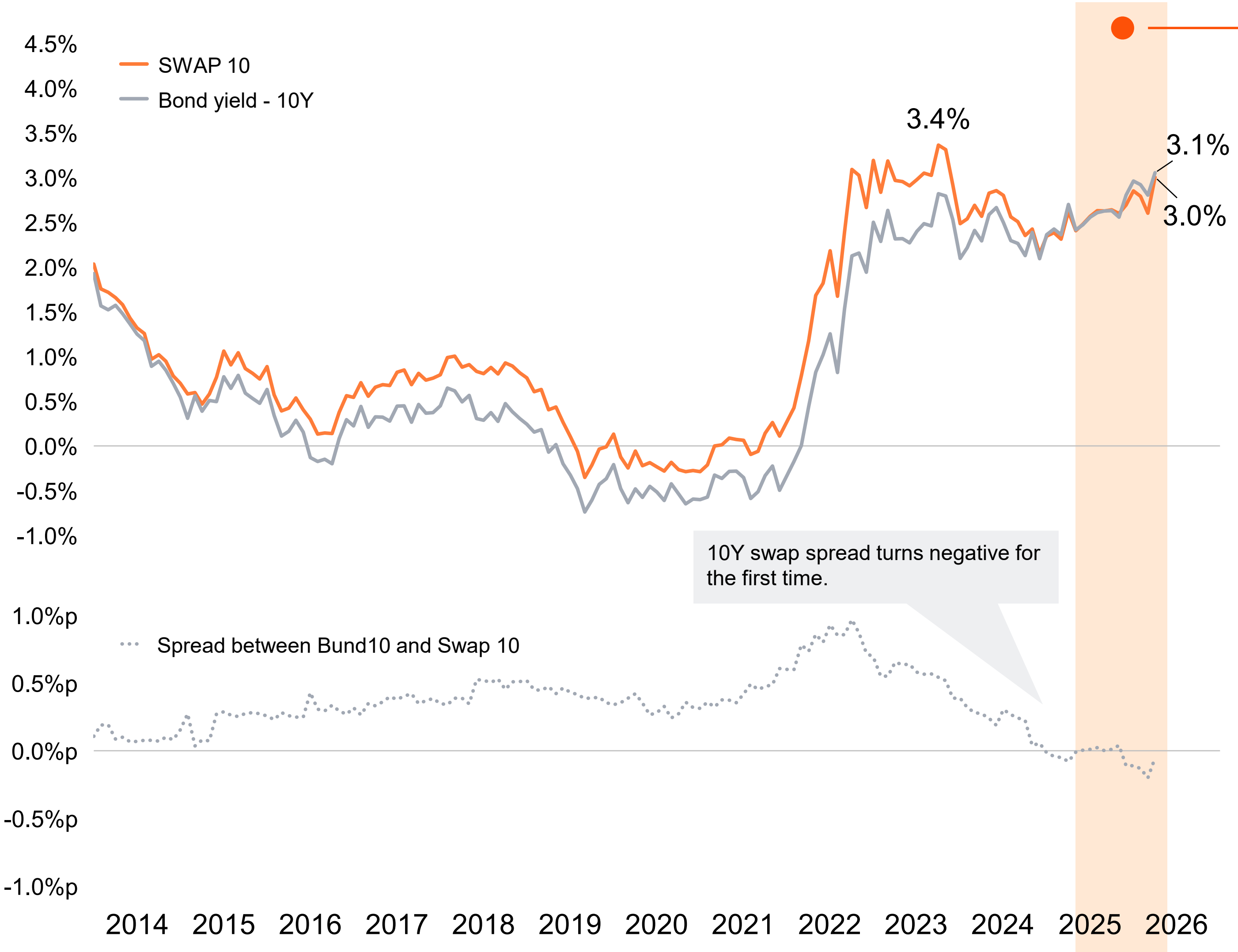
Yield convergence:

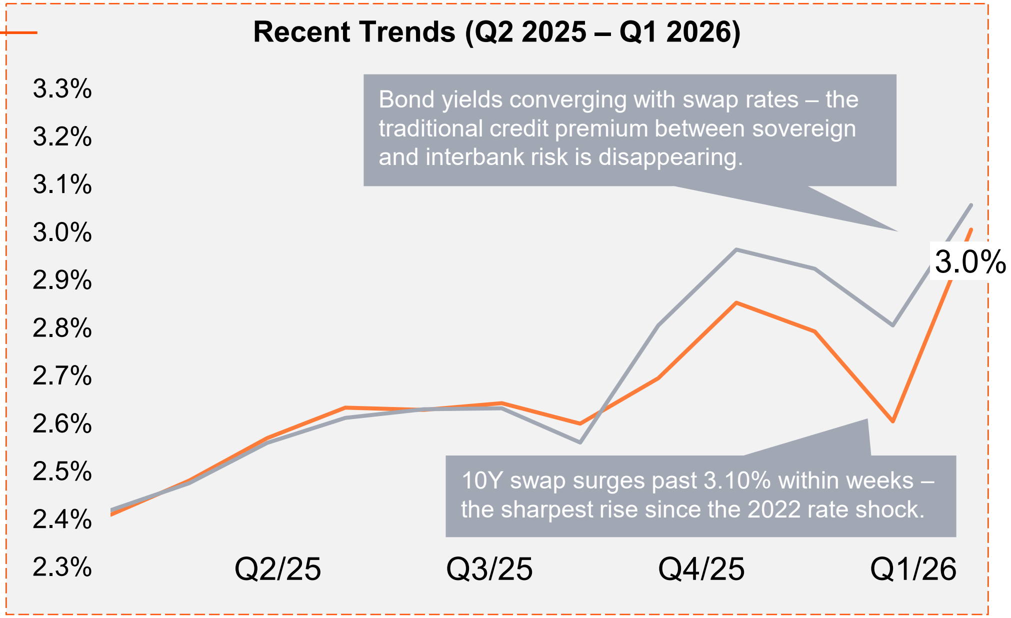
Prime net initial yields (NIYs) – as published in broker reports – remain at a persistently low 3.5%, while long-term government bond yields have continued to climb. The spread between the two has fully compressed. Currently, no risk premium for real estate over sovereign debt is observable.

What does this mean?

The compression of prime yields towards Bund yields may partly reflect a measurement artefact. Prime yield series are based on transactable assets – properties that no longer clear at prime levels are reclassified out of the sample, leaving the published series upward-biased in quality and downward-biased in yield. The gap between expected and broker-quoted yields shown above provides one indication of this dynamic. True market yields are likely materially above the reported figures.

Vanishing Swap Spreads: Bond Yields Converging with Swap Rates Signal Deepening Distortions in Fixed Income Markets

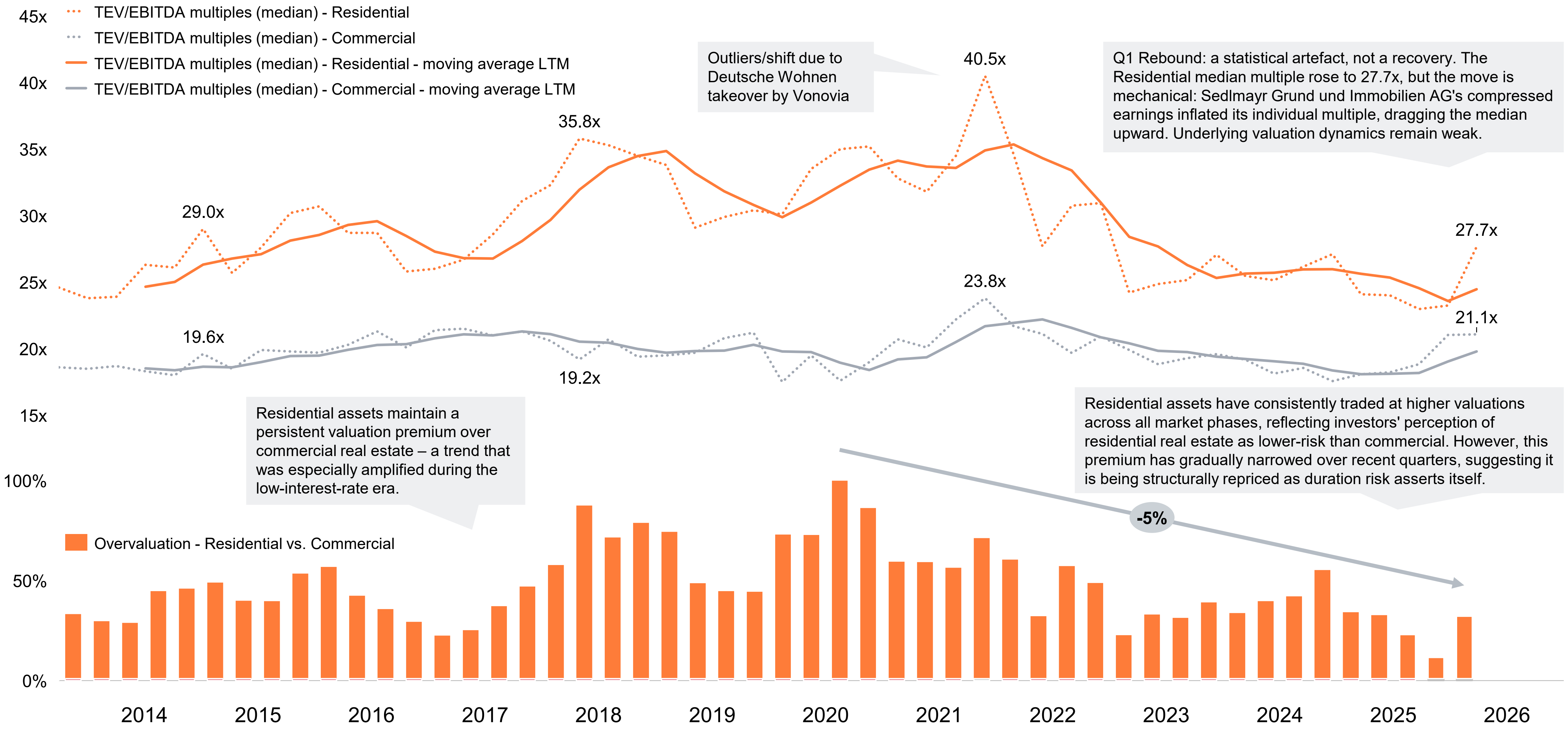




- A declining or negative swap spread in a high-interest-rate environment signals market stress and strong demand for hedging/safe assets, rather than expectations of imminent rate cuts often reflecting geopolitical uncertainty and elevated risk aversion.
- If inflation expectations remain persistent or rise further, compressed spreads may indicate distortions in fixed income markets, with central bank policy (e.g. ECB) staying restrictive despite weakening growth signals.
- For real estate, this combination implies continued high financing costs in the near term, even as spread compression points to fragile macro conditions and selective valuation pressure.

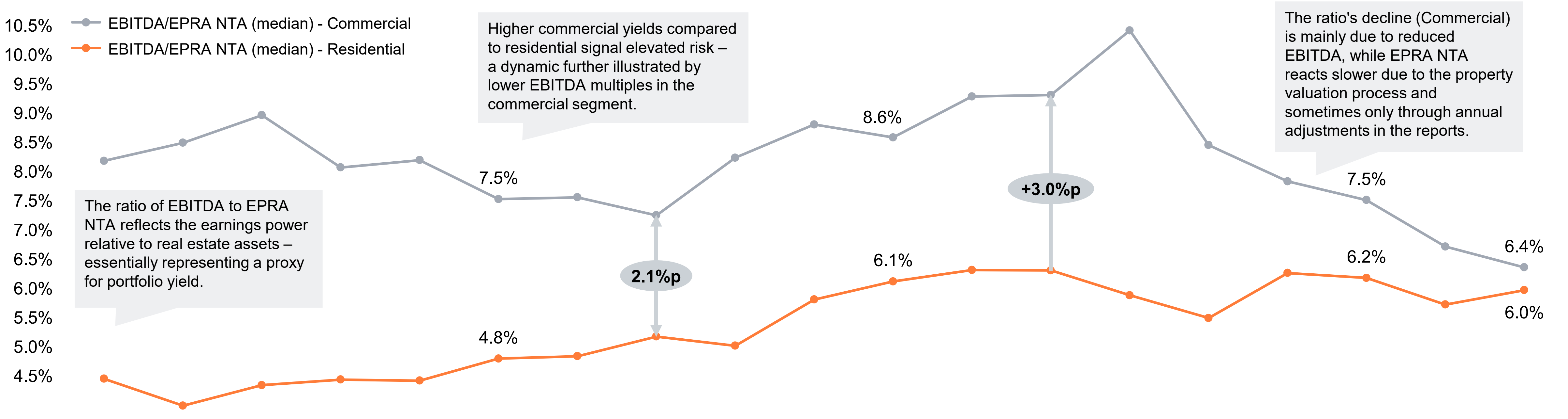
Yield methodology: Net Initial Yields are triangulated from broker panels, INREV definitions and PwC smoothing. Spreads versus Bunds use 30-year benchmarks to capture duration effects. Differences to single-broker points reflect coverage, timing and smoothing.
Source: PwC Analysis of broker reports (Net Initial Yield (NIY) according to INREV: Passing rent/net operating income divided by gross property value)

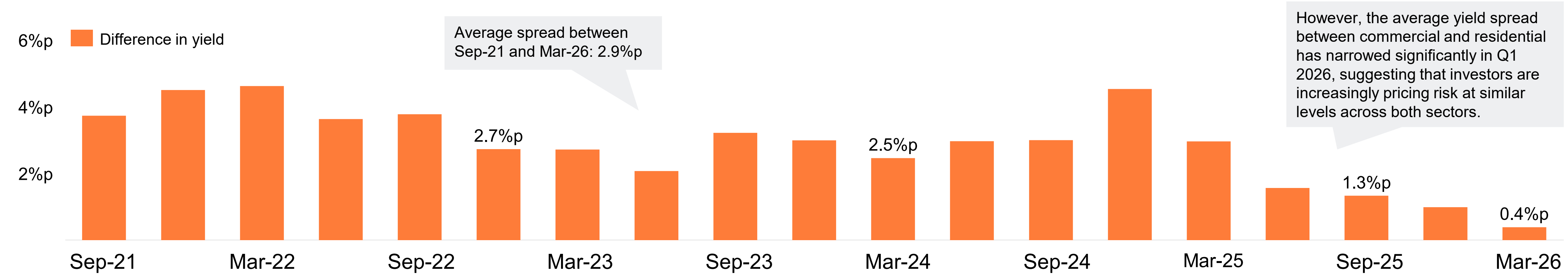
Residential Valuation Premium Widens Again — Driven by Weaker Earnings, Not Stronger Pricing



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

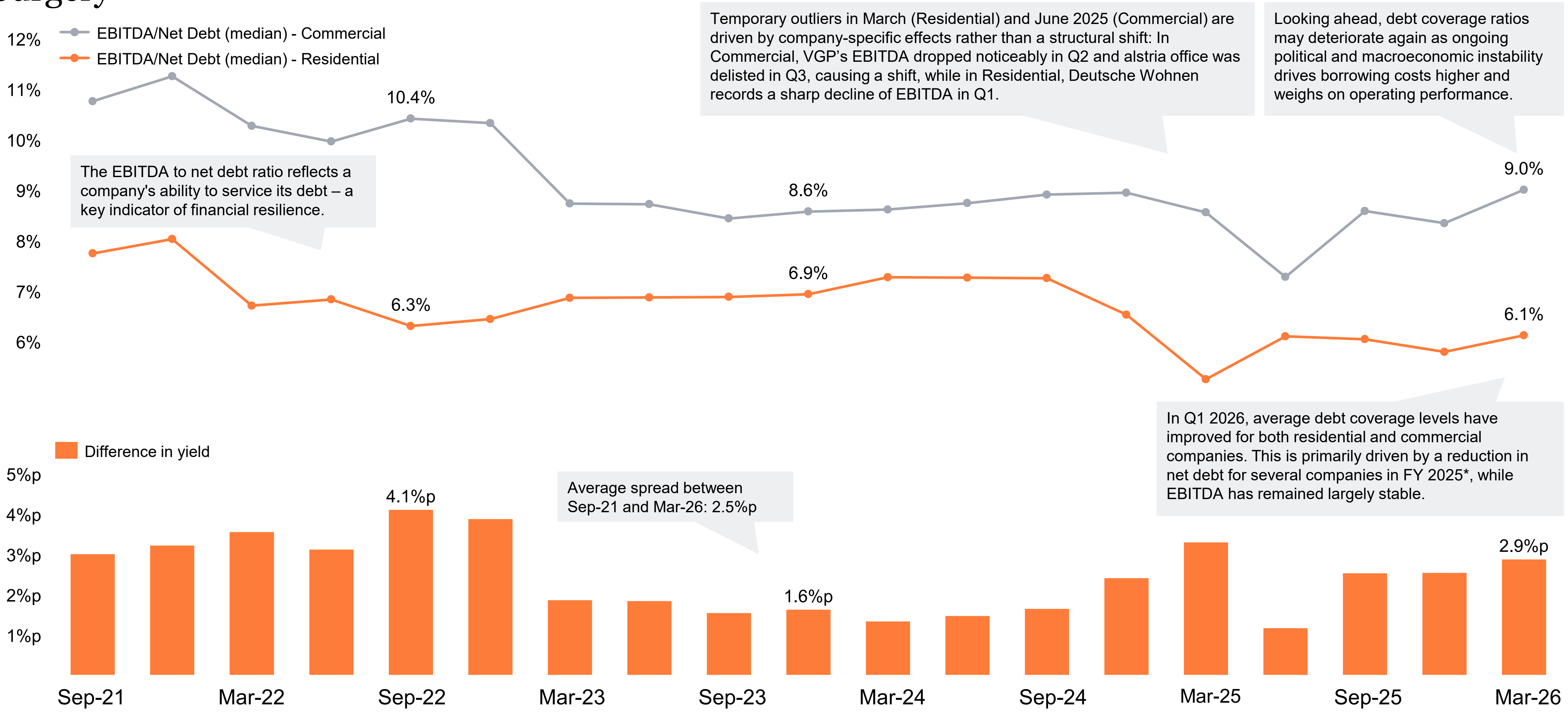
Earnings Yields Converge: Investors Are No Longer Differentiating Sector Risk. But Should They Be?





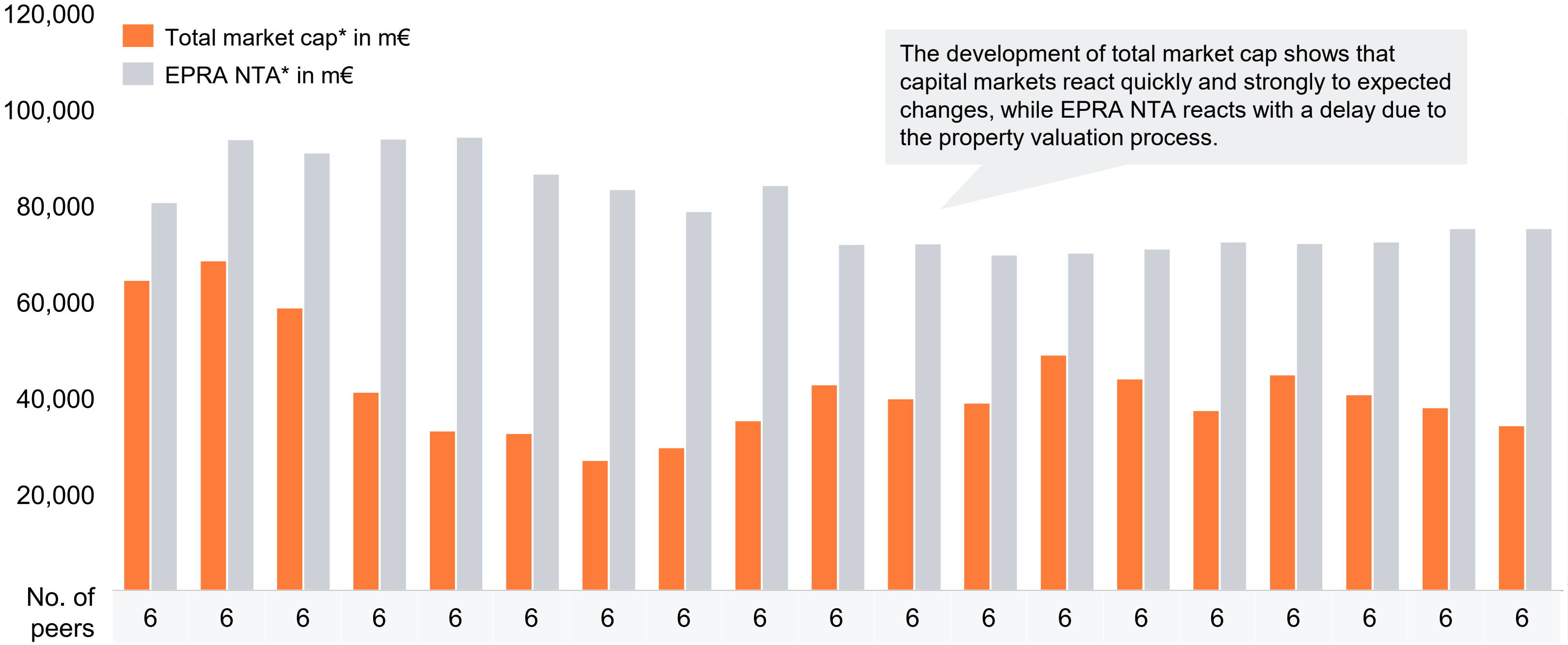
Sources: Annual and quarterly reports, S&P Market Intelligence, PwC Real Estate Institute

Defensive Deleveraging Lifts Debt Coverage – the Improvement is Predominantely Balance-Sheet Surgery



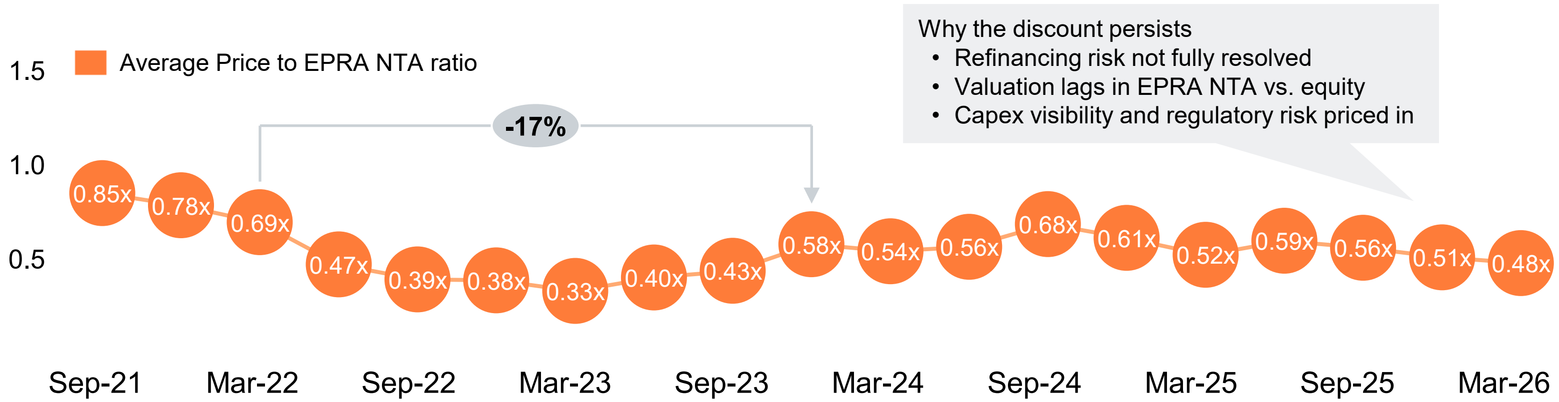
*) Due to the reporting cadence, debt coverage metrics are subject to a lag of roughly one quarter. As of March 2026, not all companies in the sample have published their FY 2025 annual reports yet.
Sources: S&P Market Intelligence, PwC Real Estate Institute

Residential Stocks Trade at ~48% NAV Discount Despite Stable Asset Values



Actual peer group and Price to EPRA NTA as of 31 Mar 2026

Deutsche Wohnen SE	0.45x
Grand City Properties S.A.	0.35x
LEG Immobilien SE	0.41x
Phoenix Spree Deutschland Limited	0.54x
TAG Immobilien AG	0.64x
Vonovia SE	0.47x
Average	**0.48x**

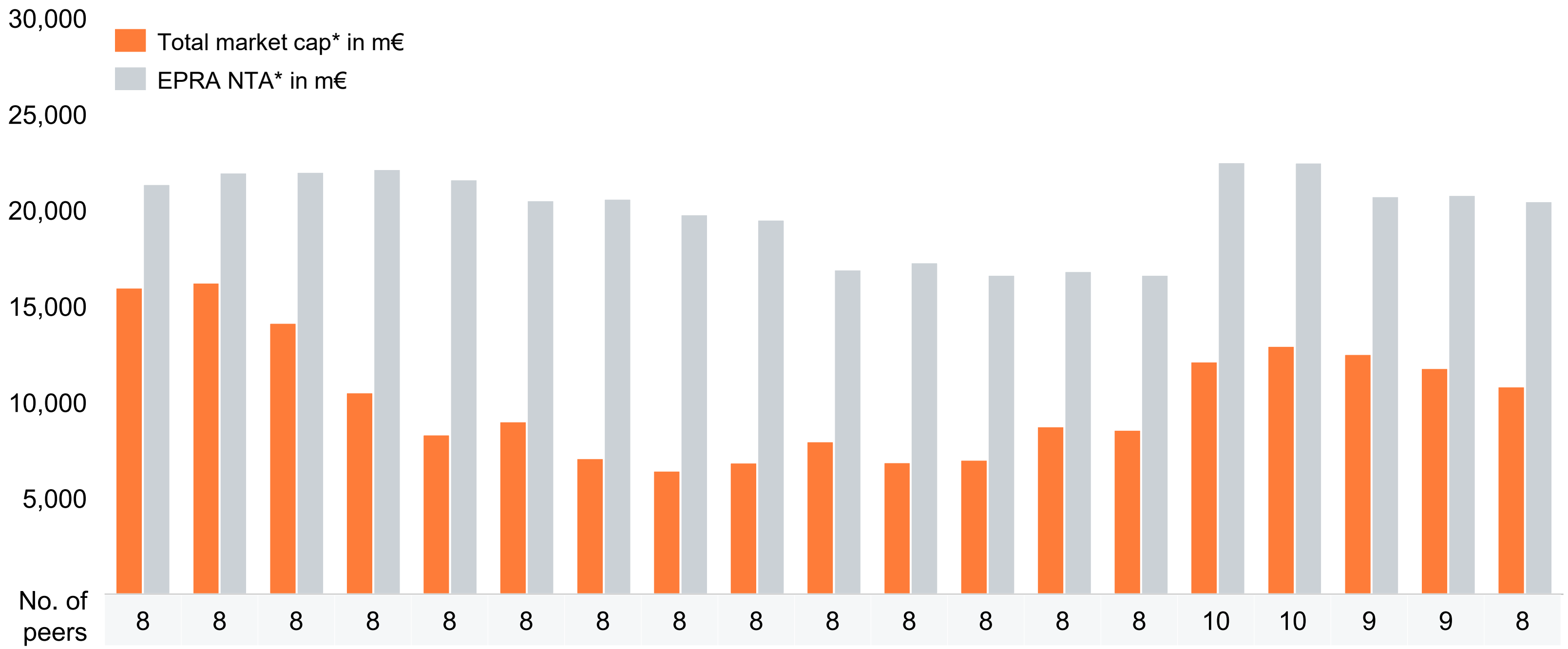


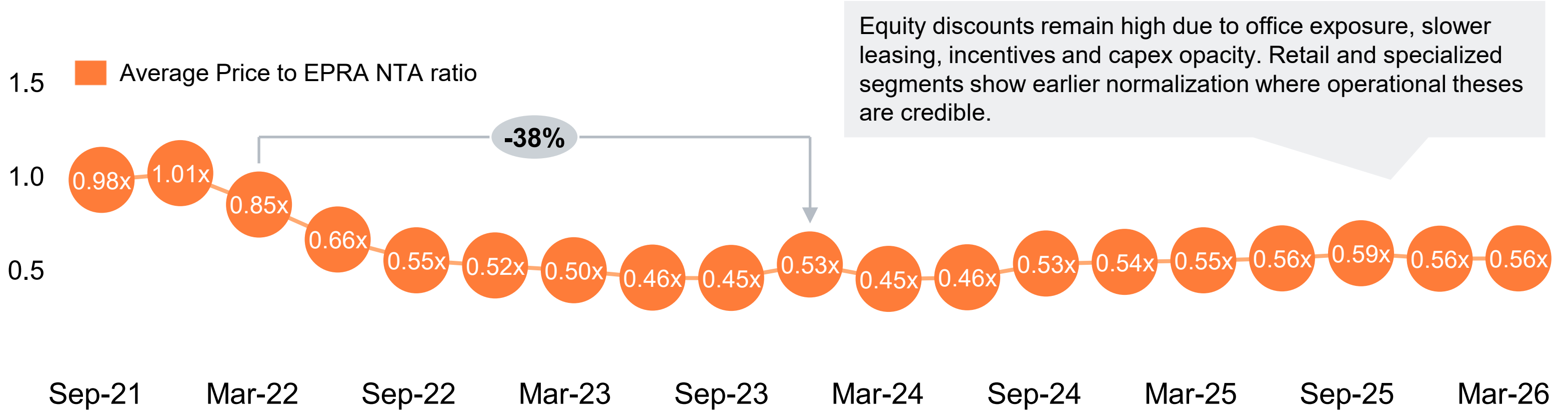
EPRA NTA for residential real estate companies has remained stable over recent months, suggesting that reported asset values have held up.

However, market capitalizations have edged lower over the same period, indicating that investors are pricing in persistently elevated risks. This growing disconnect warrants close attention going forward.

* 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

Commercial NAV Discount Stabilizes but Investor Skepticism Persists





Actual peer group and Price to EPRA NTA as of 31 Mar 2026

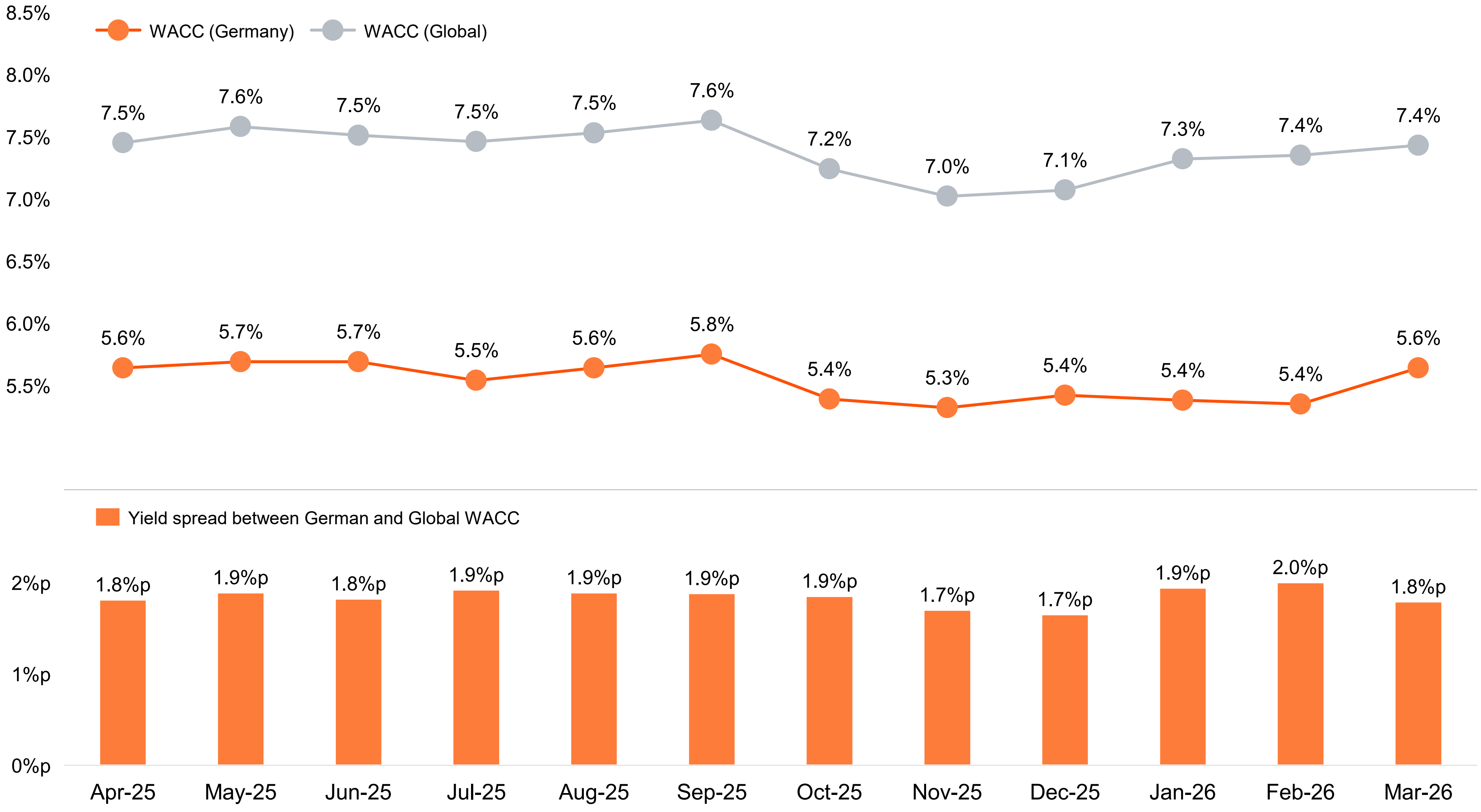
Aroundtown SA	**0.28x**
Branicks Group AG	**0.23x**
CA Immobilien Anlagen AG	**0.77x**
Deutsche EuroShop AG	**0.74x**
Hamborner REIT AG	**0.46x**
Sirius Real Estate Limited	**0.94x**
VGP NV	**0.84x**
VIB Vermögen AG	**0.21x**
Average	**0.56x**

For commercial real estate, the ratio of market capitalization to EPRA NTA has stabilized, with both metrics moving largely in parallel.

Despite this stabilization, shares continue to trade at a significant discount to their net asset values, signaling that investor skepticism regarding underlying property valuations persists.

* 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

German WACC Edges Higher but Retains Clear Advantage over Global Peers



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

In Q1 2026, WACC for the German peer group has edged slightly higher, driven by an increase in beta factors due to heightened market volatility. Despite this uptick, German real estate companies continue to benefit from significantly lower capital costs compared to global peers.

Appendix: Overview of Real Estate KPI’s

	FFO 1 multiple			Price/EPRA NTA ratio		
Stock price as of	**31/12/2023**	**31/12/2024**	**31/03/2026**	**31/12/2023**	**31/12/2024**	**31/03/2026**
KPI (FFO and NAV) as of	FY2023	FY2024	TFQ2026	31/12/2023	31/12/2024	30/09/2025
Residential						
Deutsche Wohnen SE	17.6x	18.2x	13.1x	0.56x	0.55x	0.45x
Grand City Properties SA	9.4x	10.8x	8.5x	0.43x	0.47x	0.35x
LEG Immobilien SE	12.9x	13.3x	8.8x	0.63x	0.65x	0.41x
Phoenix Spree Deutschland Limited				0.50x	0.58x	0.54x
TAG Immobilien AG	13.5x	14.4x	14.0x	0.72x	0.75x	0.64x
Vonovia SE	12.9x	13.4x	9.6x	0.61x	0.65x	0.47x
25%-Percentile	**12.9x**	**13.3x**	**8.8x**	**0.52x**	**0.56x**	**0.42x**
Average	**13.3x**	**14.0x**	**10.8x**	**0.58x**	**0.61x**	**0.48x**
75%-Percentile	**13.5x**	**14.4x**	**13.1x**	**0.63x**	**0.65x**	**0.52x**
Commercial						
alstria office REIT-AG	7.4x	16.9x		0.40x	0.84x	
Aroundtown SA	8.2x	10.1x	8.2x	0.34x	0.39x	0.28x
Branicks Group AG	5.4x	3.6x	1.7x	0.28x	0.32x	0.23x
CA Immobilien Anlagen AG			19.3x			0.77x
DEFAMA Deutsche Fachmarkt AG	12.0x	13.4x	10.9x			
Deutsche EuroShop AG	10.1x	8.9x	10.7x	0.71x	0.63x	0.74x
Deutsche Konsum REIT-AG	3.9x	5.9x		0.31x	0.35x	
Deutsche Real Estate AG	12.0x	7.9x				
FCR Immobilien AG	17.0x	14.8x	13.7x			
Hamborner REIT AG	10.1x	9.9x	7.4x	0.68x	0.64x	0.46x
Sirius Real Estate Limited	13.4x	11.9x	13.1x	1.15x	0.86x	0.94x
VGP NV						0.84x
VIB Vermögen AG	6.3x	4.2x	2.6x	0.34x	0.28x	0.21x
25%-Percentile	**6.9x**	**6.9x**	**1.2x**	**0.33x**	**0.34x**	**0.22x**
Average	**9.6x**	**9.8x**	**7.3x**	**0.53x**	**0.54x**	**0.45x**
75%-Percentile	**12.0x**	**12.6x**	**11.5x**	**0.69x**	**0.69x**	**0.76x**

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

Appendix: Methodological Basis for PwC Real Estate Monitor (1/3)

Peer Universe & Data Basis

Peer selection	In selecting peers for our analysis, we focus on listed German real estate companies with a primary emphasis on holding and managing residential and commercial property portfolios. We have established two distinct peer groups – "Residential" and "Commercial" – based on their core business focus, enabling more targeted and meaningful comparisons. Peer selection is conducted annually, applying both qualitative and quantitative screening criteria, including a minimum market capitalization of €100m and a free float above 10%. Adjustments to the peer group composition are made at the turn of each calendar year, which may result in abrupt changes to aggregated metrics.
Sources & data basis	Our analysis draws on a variety of data sources. The majority of data used – including stock prices, EBITDA, net debt and inputs for the calculation of cost of capital etc. – is sourced from S&P Market Intelligence. Real estate-specific KPIs such as EPRA NTA and FFO 1 are extracted directly from quarterly and annual reports published by the respective companies. Additional data sources include Destatis, Deutsche Bundesbank and the PwC Real Estate Institute.

Market Context: Perfomance, Supply & Yields

Performance indices	The PwC Real Estate Indices are equally-weighted total performance indices comprising listed German residential and commercial real estate companies (refer to the peer universe). 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 behaviour of the equity markets and are not to be equated with transaction or expert real estate valuations.
Building permits	Building permits data (residential and commercial) are sourced from Destatis and presented as absolute monthly numbers alongside a 12-month rolling average. They are evaluated in conjunction with the construction price index (residential, year-on-year) and EURIBOR (3-month) to assess supply-side feasibility.
Net Initial Yield (NIY)	Net initial yields are triangulated from broker panels, INREV definitions and PwC smoothing methodologies. In line with the INREV definition, NIY is calculated as passing rent / net operating income divided by gross property value. Yield spreads are measured against 30-year government bond yields to capture duration effects. Differences relative to single-broker data points may arise from variations in coverage, timing and smoothing methodology. The yield analysis examines prime net initial yields in the context of government bond yields and their respective risk premiums, while tracking the compression of spreads between residential NIYs and long-dated sovereign bonds.

Appendix: Methodological Basis for PwC Real Estate Monitor (2/3)

Operating Performance & Earnings Quality

EPRA NTA	EPRA Net Tangible Assets is a standardised metric defined by the European Public Real Estate Association. It represents the net asset value of a real estate company adjusted for intangible assets and deferred taxes. In the Monitor, EPRA NTA serves as the key denominator for Price/EPRA NTA and EBITDA/EPRA NTA ratios. EPRA NTA reacts with a delay due to the property valuation process, whereas the development of total market capitalization shows that capital markets respond quickly and strongly to expected changes.
EBITDA to EPRA NTA	The EBITDA to EPRA NTA ratio (median) relates operating earnings (EBITDA) to EPRA Net Tangible Assets. It highlights how operating performance and reported asset values evolve across sectors. A rising ratio signals stable or growing income relative to EPRA NTA; a declining ratio points to operational pressure or lagged property revaluations. EPRA NTA reacts more slowly due to the property valuation process and sometimes only through annual adjustments in reports. 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.
EBITDA to Net Debt	The EBITDA to net debt ratio (median) measures a company's ability to service its net debt from operating earnings, serving as a key indicator of balance sheet strength and refinancing capacity. A decline in the ratio captures not only operational pressure but also the impact of a tighter funding environment on the sector. The Monitor uses this metric to illustrate a fundamental shift in how equity markets assess real estate companies: the focus has moved away from asset values towards the sustainability of balance sheets. Companies with resilient cash flows and manageable leverage are being rewarded, while those with higher refinancing risk and weaker income visibility face more aggressive repricing.

Valuation Level: Market Price vs. Book Value

TEV/EBITDA multiples	The Total Enterprise Value (TEV) to EBITDA multiples are computed as the median of the respective peer group (Residential and Commercial). They capture how the market prices operating earnings relative to the total enterprise value. The Monitor tracks TEV/EBITDA over time to identify relative valuation shifts between sectors. A narrowing multiple gap between residential and commercial does not indicate excess in housing but reflects a shift in perceived income risk.
Price to EPRA NTA	The ratio of market capitalisation (stock price) to EPRA Net Tangible Assets serves as a proxy for the value of a company's 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 net tangible asset value at the same level. Persistent discounts reflect refinancing risk, revaluation lags in EPRA NTA and regulatory risk priced in by the market.
FFO 1 multiple	The FFO 1 (Funds From Operations) multiple relates the market capitalisation (stock price) to FFO 1. FFO 1 represents the sustainable operating cash flow of a real estate company before non-recurring items. Stock prices are taken as of each period-end (e.g. 31 December)

Appendix: Methodological Basis for PwC Real Estate Monitor (3/3)

Cost of Capital & Financing Environment

10Y EUR Swap Rate	The 10-year EUR swap rate is the fixed interest rate paid in exchange for a floating rate, typically 6-month EURIBOR, in a plain-vanilla interest rate swap with a maturity of ten years. It represents a key medium- to long-term reference rate for euro-denominated fixed-rate financing.In European corporate and real estate finance, fixed-rate debt is commonly priced off the EUR interest rate swap curve rather than directly off government bond yields, as the swap curve more closely reflects actual interbank funding conditions. Monitoring the 10Y EUR swap rate on a regular (e.g. monthly) basis helps capture changes in the interest rate environment and assess their implications for refinancing costs, asset valuations, and investment decisions.
SWAP Spread	The swap spread is defined as the difference between the 10-year EUR swap rate and the yield on the 10-year German government bond (Bund) of comparable maturity. It reflects the credit, liquidity, and structural factors embedded in the interbank swap market relative to sovereign funding conditions. A widening swap spread may indicate increased perceived counterparty or systemic risk, higher demand for hedging, or reduced liquidity in the swap market, while a narrowing spread is typically associated with improved market conditions or stronger demand for government bonds. In the context of real estate and corporate financing, the swap spread is relevant because borrowing costs are usually referenced to the swap curve; changes in the spread can therefore affect the all-in cost of fixed-rate debt, even when government bond yields remain broadly stable. A negative swap spread means that the 10-year EUR swap rate is below the 10-year Bund yield, typically reflecting risk aversion, strong demand for safe assets, or technical market distortions rather than imminent rate cuts. For real estate, this does not imply easier financing: all-in borrowing costs can remain high as credit spreads, refinancing risk, and lender caution stay elevated.
Credit spread	The credit spread refers to the risk premium that real estate companies pay on debt financing above the risk-free rate. It serves as an indicator of refinancing conditions and investor risk perception. Credit spreads that remain elevated keep refinancing conditions tight and reinforce investor caution; narrowing spreads signal easing financial stress. The cost of capital is no longer rising, but it is still high enough to limit the upside.
WACC	The Weighted Average Cost of Capital (WACC) is calculated for German listed real estate peers (Residential & Commercial) as well as a global real estate peer group, providing a critical measure of relative investment appeal. The WACC is updated on a monthly basis and reflects the weighted cost of equity and after-tax debt capital, based on the capital structure. The cost of equity is derived using the Capital Asset Pricing Model (CAPM), incorporating risk-free rates, beta factors and market risk premium, while the cost of debt is based on observed or implied borrowing costs (risk-free rate plus credit spread) adjusted for the tax shield effect. A rising WACC signals increasing financing pressure and diminishing investment attractiveness, while a declining WACC points to improving capital market conditions.

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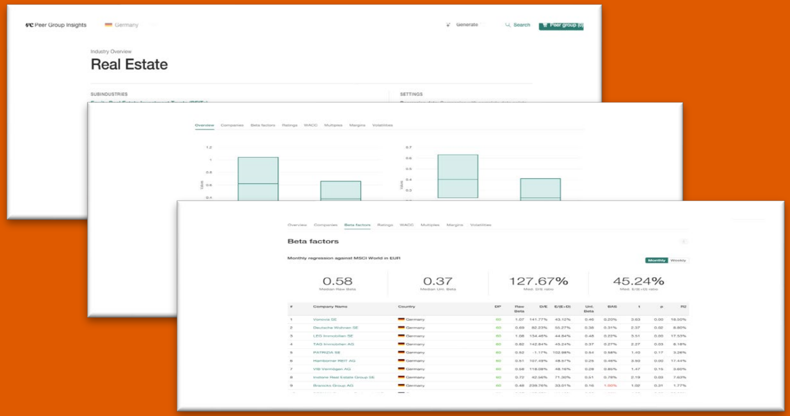

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