

# HANNOVER



September 2023 issue

## PROPERTY MARKET REPORT 2023

BUSINESS PROMOTION



Region Hannover

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MAPS AND CURRENT PROJECTS AT  
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FOR MANY OF THE MAJOR  
CHALLENGES IN HANNOVER,  
THE PROPERTY SECTOR IS A  
PARTNER AND A MOVER

Cover: GUNDwerk, Hannover

# THE PROPERTY MARKET IN THE HANNOVER REGION



Dear Readers,

In 2022, the regional property market was able to achieve a partial recovery.

The start was more cautious than expected, but in the second half of 2022 the office and logistics submarkets in particular were able to record very good turnover. But the joy dimmed in 2023 with the ongoing economic and macro-political challenges: inflation, rising interest rates, increased energy and building material costs, fragile supply chains and a weakening German economy.

These factors are clearly slowing down investment by actors on both supply and demand sides. Above all, not enough new residential housing is being built. Trends in the first half of 2023 indicate stronger reversals and downturns in the property market. Despite all the uncertainties, we, together with the regional property sector, have for many years been very successful in focusing on our strengths as a location. This has also enabled Hannover to expand and consolidate its position as a major location in Germany for property.

The property sector is an important partner and mover for the major challenges in Hannover. For example, climate targets will not be achieved without the active participation of the property sector. Partners in this year's report have been 31 real estate companies who have been working together with the state capital and the Hannover Region, and supported by bulwiengesa AG, for 20 years to produce the Property Market Report. Current developments on the Hannover property market have been classified and evaluated using well researched data and assessments by experts active in the region, and from a wide range of businesses and institutions.

The Property Market Report once again testifies to the committed and trusting teamwork of the Hannover property sector and the shared pursuit for market transparency – also and especially in difficult times.

Ulf-Birger Franz

Head of Business, Transport and Education  
Hannover Region

Anja Ritschel

Head of Business and Environment  
State Capital Hannover





# INVEST- MENT MARKET



**CRISES CLEARLY  
LEAVING THEIR MARK:  
BUYERS AND SELLERS  
TAKING A WAIT-  
AND-SEE APPROACH.**

## Investment market stabilises at previous year's low level

- › The Hannover Region is an attractive business location offering a high quality of life. The capital of Lower Saxony and the Hannover Region are home to world-renowned brands, a strong economy of small and medium-sized enterprises, and outstanding research institutions. More than 50,000 companies employing around 535,000 people make Hannover the key economic area in Lower Saxony. The jobs market has been developing positively over the last ten years, the population figures have been rising for many years and the region is a leader in education and training.
- › The regional economy's development has been generally positive despite the challenges of the past three years – the economic crisis triggered by the corona pandemic, the impact of war in Ukraine, inflation and increased energy prices. Its dynamic growth has slowed rather than stopped.



## MARKET MOOD AND TRENDS

Positive trends over the past decade have brought sustained demand for property across all submarkets and consolidated and expanded Hannover's position as Germany's most important location after the seven main A-cities. Hannover offers highly interesting investment opportunities and attracts national and international investors seeking high-value locations.

### Drastic change in the investment market environment

The exceptionally long upswing on the German investment market has seen falling yields since 2010 and rising investment volumes including in Hannover. However, in the past two years, the boom has slowed considerably. The interest rate reversal and accompanying corrections in the property markets have had a surprisingly pronounced impact. Within just a few months, the investment market environment has changed dramatically. Processes of change along with the uncertainties these bring have led to lower activity across the board and a general wait-and-see attitude on the investment market.

Yield expectations for the current year reflect more the supply side than of actually completed transactions. Many sellers are currently unwilling to dispose of their properties at the quoted yields and multipliers, and are partially holding onto properties in anticipation of prices and trends stabilising. Until this gap closes, few transactions will be successfully concluded in the future.

### Increasing demand for sustainability and energy efficiency

Investment pressure remains high. In the office and logistics submarkets, prospects for rising rents for top properties have recently improved further. All current projects are addressing sustainability issues are therefore in line with investment demand and the needs of the businesses using the properties. Nevertheless, the debate around amendments to the German building energy law [*Gebäudeenergiegesetz*] and the European Union's stricter energy efficiency requirements for buildings are causing uncertainty, especially among prospective buyers wanting to invest in existing properties.

### 2022 investment year surprisingly stable compared to the previous year

Despite all the difficulties and against a backdrop of global, political and economic events, the 2022 investment year in Hannover remained comparatively stable from the perspective of the regional property sector.

Excluding off-market deals, investment in commercial property in the Hannover Region totalled around €540 million. Although this is around €215 million below the five-year average, it still exceeds the figure from crisis-hit 2021, despite inflation and a sudden rise in interest rates. It is noteworthy that almost half of investments took place in the second half of the year and thus in the middle of a widespread stagnant market. This clearly demon-

strates the confidence investors have in Hannover Region as a crisis-resistant location, despite all the difficulties, a confidence that was also evident at the beginning of 2023. By the end of the second quarter of 2023, deals with a secured total volume of around €270 million were recorded in the Hannover Region.

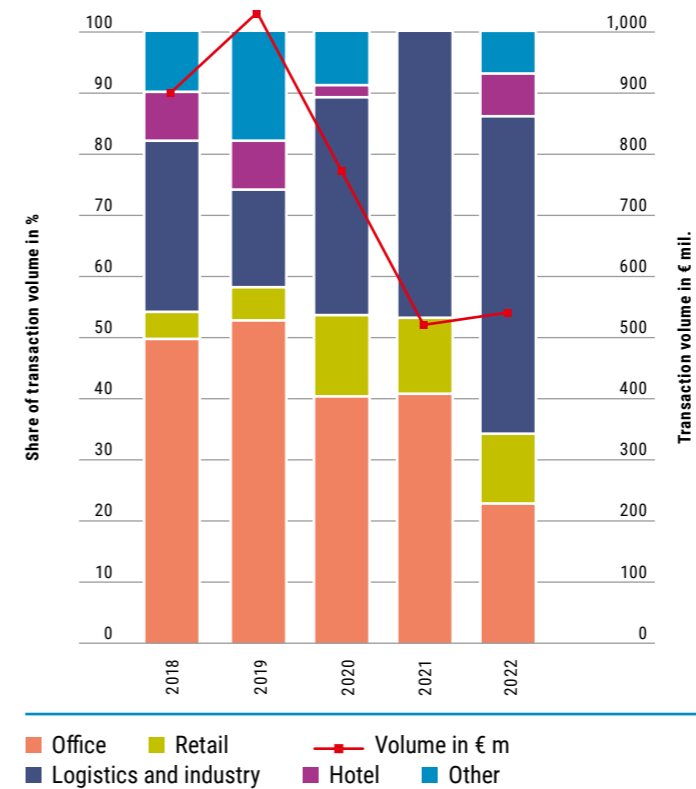
### Logistics and production properties dominate market activity

This represents a very good interim result in view of the uncertainties in the market and the clearly restrained investment activity throughout Germany. As in the two previous years, the logistics and production property submarket has dominated transaction activity. Despite the year getting off to a good start, there are currently few ongoing and newly started sales processes, so that transaction volumes by the end of the year are likely to again be comparatively low.



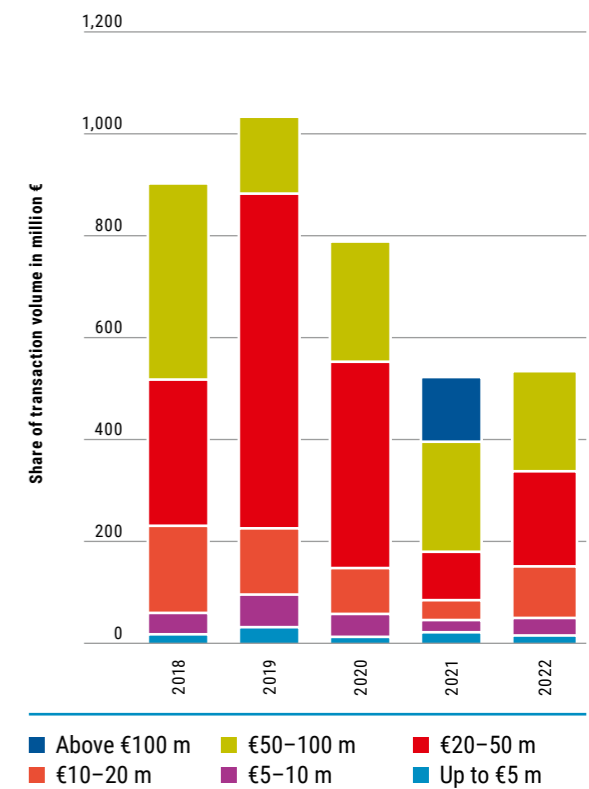
**540 MILLION INVESTMENT TURNOVER IN 2022: INVESTMENT VOLUME STABILISES AT A LOW LEVEL.**

### Transaction volume for commercial property market Distribution according to submarkets 2018 to 2022



Source: bulwiengesa AG, data for the Hannover Region, data as at Q2/2023

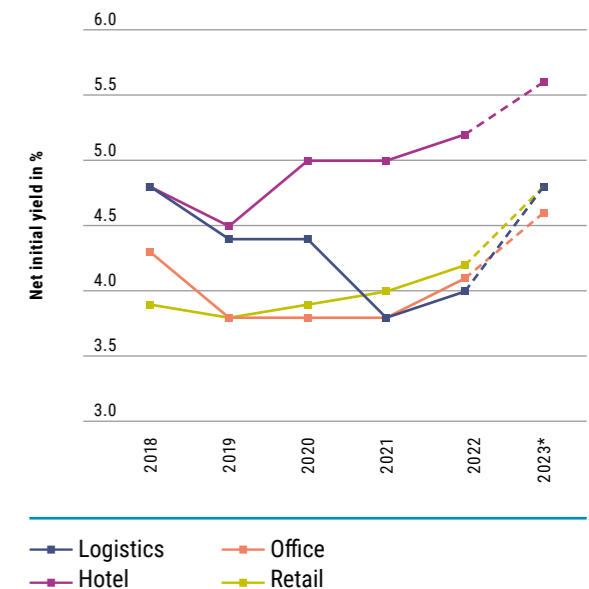
### Transaction volume for commercial property market Distribution according to size classes 2018 to 2022



Source: bulwiengesa AG, data for the Hannover Region, data as at Q2/2023



### Net initial yields in prime locations 2018 to 2023 Hannover commercial property market



Source: bulwiengesa AG, data for the Hannover Region, data as at Q2/2023  
For yield spreads, the lower end points are always given.

\* Forecast based on information from market participants



New company headquarters  
EnergyCity, Hannover

### Office

<b>Office rental space 2023 in m² MF-G</b>	<b>5.27 m</b>
Hannover city	4.76 m
Surrounding towns of Garbsen, Laatzen and Langenhagen	0.51 m
<b>Office space turnover 2022 in m² MF-G</b>	<b>165000</b>
Hannover city	155,000
Surrounding towns of Garbsen, Laatzen and Langenhagen	10,000
<b>Office space turnover H1/2023 in m² MF-G</b>	<b>35,000</b>
Hannover city	30,000
Surrounding towns of Garbsen, Laatzen and Langenhagen	5,000
<b>Vacancy rate 2023 in m² MF-G</b>	<b>265000</b>
Hannover city	225,000
Surrounding towns of Garbsen, Laatzen and Langenhagen	40,000
<b>Vacancy rate 2023</b>	<b>5.2%</b>
Hannover city	4.7%
Surrounding towns of Garbsen, Laatzen and Langenhagen	8.0%
<b>Peak rent 2023 in m² MF-G</b>	
City	19.00
city periphery	16.90
<b>Average rent 2023 in m² MF-G</b>	
City	15.10
city periphery	13.30
<b>Net initial yield in prime city locations 2023</b>	<b>4.6%</b>

Source: bulwiengesa AG; Hannover Region surveys;  
information from market participants; data as at Q2/2023

Note: Definitions according to guidelines from gif Gesellschaft für  
immobilienwirtschaftliche Forschung e. V.



### Vacancy rate and peak rents rise

Office space turnover was around 165,000 m² at the end of 2022. In the past five years (2018 to 2022), approximately 235,000 m² of new office space has been built and a further 70,000 m² has undergone complete renovation. The list of project developments continues to be extremely long. By 2026, prospectively around 350,000 m² could be added (of which around 85,000 m² through refurbishment), and around 120,000 m² this year alone. Nevertheless, there is currently a restrained and a more wait-and-see mood.

**MARKET MOOD:**  
COMEBACK AT THE  
END OF 2022, CURRENT  
WAIT-AND-SEE ATTITUDE  
AMONG INVESTORS  
AND USERS

# OFFICE PROPERTY MARKET



## MARKET MOOD AND TRENDS

Investment and location decisions were far more restrained in the first half of 2022, in both supply and demand with the crisis-ridden environment being responsible. However, turnover then picked up more strongly than expected in the second half of the year, likely to have been driven by a catch-up effect arising from the weak previous years as well as expectations of higher prices in the coming months. Since the beginning of 2023, the market has clearly calmed again and a wait-and-see attitude can be observed.

### Annual figures for the office property market show a clear plus

Against this background, annual figures for the **office property market** in 2022 show a clear plus compared to 2021. Office space turnover was around 165,000 m<sup>2</sup> at the end of 2022. This corresponds to an increase of around 22% (plus 30,000 m<sup>2</sup>). As a result, **space turnover** is back in line with the five-year average (2018 to 2022) and picks up where the strong turnover years of 2018 and 2019 (pre-corona) left off.

After an unexpectedly dynamic year-end spurt in 2022, the first half of 2023 was much quieter, with turnover in the Hannover office market (including the surrounding area) reaching only around 35,000 m<sup>2</sup> by mid-year.

### Vacancy rate expected to rise, peak rents increasing

**Vacancy rates** stabilised at 4.2% in the city of Hannover at the end of 2022 after a strong rise (from 3.3% in 2020 to 4.1% in 2021). However, a further increase in the vacancy rate to 4.7% is expected in the course of 2023.

By the end of 2022, **peak rents in the city centre** had risen to €18.80/m<sup>2</sup>, an increase of 80 cents. In 2023, further rent increases are possible with market participants expecting peak rents of at least €19.

Peak rent trends have been highly positive across all locations over recent years. However, they came under slight pressure on **city periphery and arterial road locations** in the first half of 2022, but were able to stabilise at a higher level of €16.50/m<sup>2</sup> (up 50 cents) by the end of the year. A jump in **average rents** is particularly noteworthy. In city centre, city periphery and arterial road locations, average rents rose by around €2/m<sup>2</sup> in 2022. Whether these are short-term exceptional effects or more permanent remains to be seen.

### Increasing demands on quality of space

Overall rising rents can also be explained by the development and completion of modern

properties across all locations. Many users, including many large businesses, want higher-quality space and more attractive locations, frequently combining this with less space than previously required. Such developments are being driven by new-work based space optimisation and increased mobile working from home and the use of coworking spaces. This overall trend is likely to be supported by new-build spaces certified for sustainability. In contrast, market opportunities for older existing properties are deteriorating, with the average rents as reported here no longer being achievable everywhere.

### Investors continue to wait and see

Significantly fewer transactions were recorded in the office market last year, and investment volumes again fell sharply to around just €125 million. Long-term rented properties in sought-after locations generally remain very popular with investors. The supply of existing properties, however, is also expected to increase in the future, and these will require extensive modernisation and redevelopment. This supply spread is one factor in the wide divergence in price expectations between buyers and sellers. The estimated realisable **peak yield** is now seen by market participants at 4.6%. Low transaction volumes in the current year are likely because of the small number of ongoing and newly initiated sales processes.

### Market environment remains challenging

The market environment remains challenging for all participants. To remain competitive, many existing spaces need to be upgraded. Older and lower standard spaces, especially in less attractive locations, are suffering from rising vacancy rates. Users are being burdened by rising rents and rising ancillary costs, and for some it remains unclear how their individual office space needs will develop in the future. Market participants are currently recording increased activity by businesses offering their own space for subletting.

Chamber of Commerce and Industry  
Hannover



Continental headquarters, Hannover



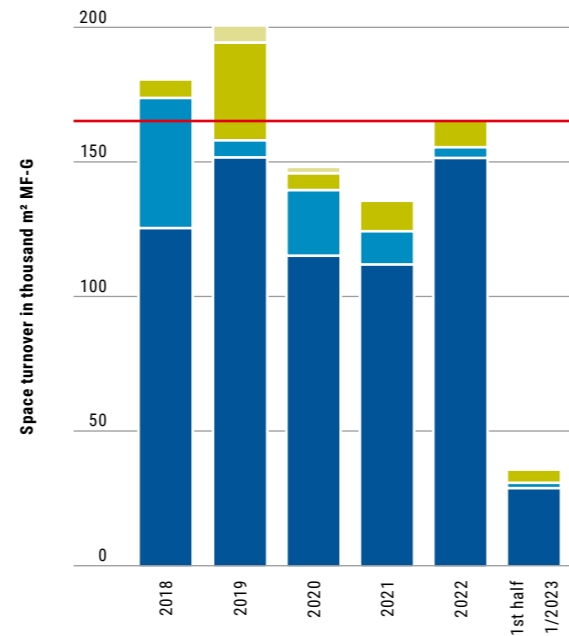


### High volume of completions

The increase in subletting space is not the only factor likely to prevent vacancy rates on the Hannover market from falling by the end of the year. Many projects are also currently undergoing completion, with many more to follow over the next two to three years. This will help reduce the excess demand for modern space, but may also cause office space supply to increase faster than demand, with vacancies stabilising at current levels or continuing to rise slightly.

In the long run, this is likely to strengthen the negotiating position of tenants. Market participants in Hannover are seeing incentives being granted more frequently, in return for long-term commitments in tenancy agreements.

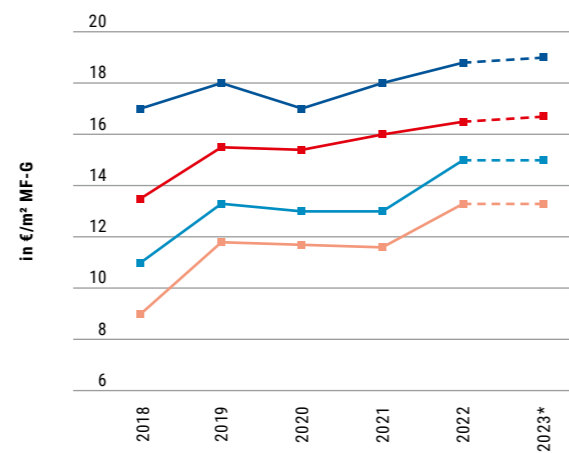
### Office space turnover 2018 to 2022



■ Rental Hannover ■ Owner-occupier Hannover  
 ■ Rental surrounding area ■ Owner-occupier surrounding area  
 — Average 2018 to 2022

Source: Hannover Region surveys; information from market participants  
 Data as at Q2/2022

### Office rents 2018 to 2023

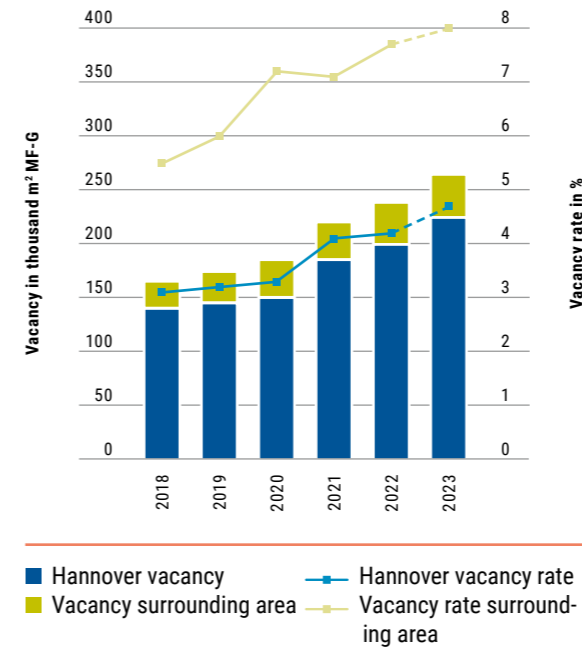


— Peak city rent — Average city rent  
 — Peak city periphery rent — Average city periphery rent

Source: bulwiengesa AG; Hannover Region surveys; information from market participants; data as at Q2/2023

\* Forecast based on information from market participants

### Office space vacancy 2018 to 2023

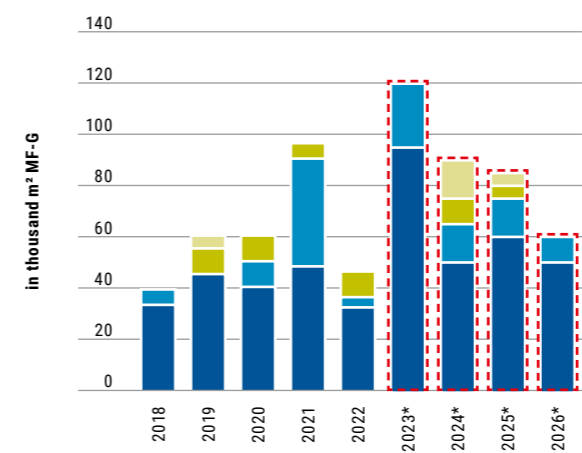


■ Hannover vacancy ■ Vacancy surrounding area  
 — Hannover vacancy rate — Vacancy rate surrounding area

Note: The vacancy rate was calculated and updated on the basis of the 2022 office space survey for the Hannover market area. On the basis of the current survey, the vacancy figures updated since the 2019 survey using estimates were retroactively adjusted to the Q4/2022 survey results.

Source: bulwiengesa AG; Hannover Region surveys; information from market participants; data as at Q2/2023

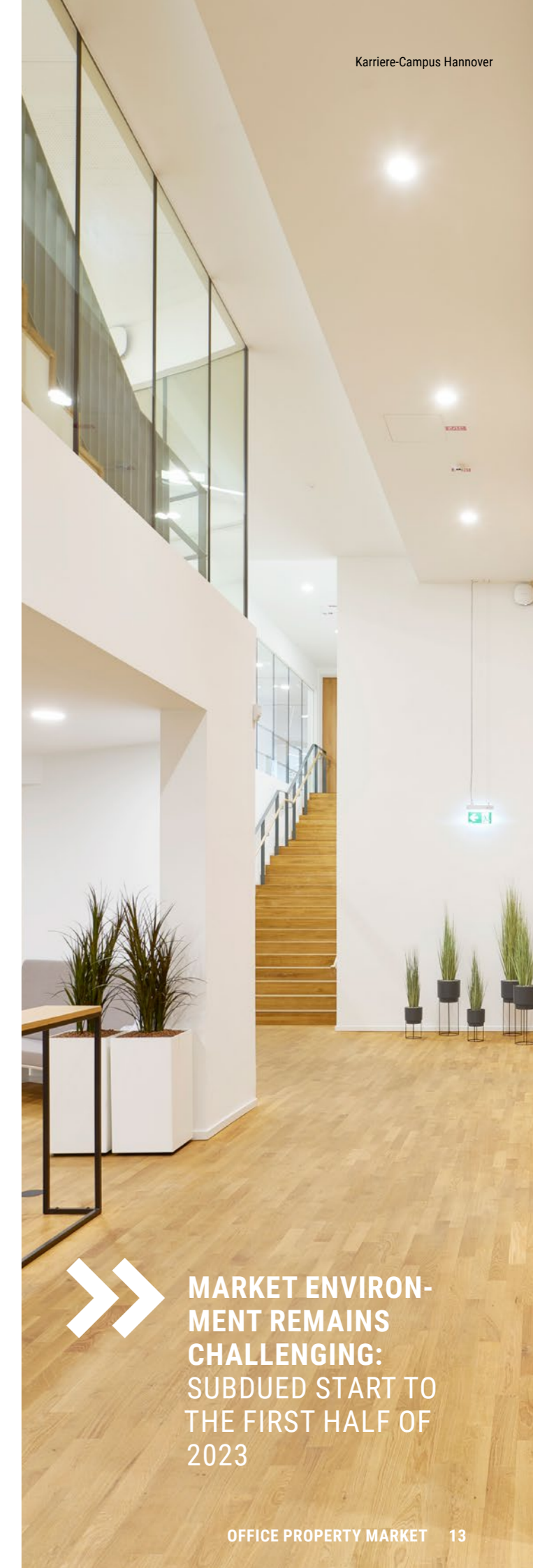
### Completions 2018 to 2026



■ Newbuilds Hannover ■ Renovations Hannover  
 ■ Newbuilds surrounding area ■ Renovations surrounding area

Source: Based on the bulwiengesa AG spring forecast Hannover Region surveys; data as at Q2/2023

\* Forecast based on information from market participants



MARKET ENVIRONMENT REMAINS CHALLENGING: SUBDUED START TO THE FIRST HALF OF 2023



# LOGISTICS PROPERTY MARKET

## Logistics and production

<b>Logistics space available in 2023 in m<sup>2</sup></b>	<b>4.0 m</b>
of which investable space (built after 01/2014)	1.3 m
<b>Logistics space turnover in 2022 in m<sup>2</sup></b>	<b>420,000</b>
of which rentals	355,000
of which owner-occupied	65,000
<b>Logistics space turnover H1/2023 in m<sup>2</sup></b>	<b>135,000</b>
of which rentals	125,000
of which owner-occupied	10,000
<b>Rents in prime locations 2023</b>	
Peak rent in €/m <sup>2</sup>	6.20
Average rent in €/m <sup>2</sup>	4.90
<b>Net initial yield of logistics centres in prime locations 2023</b>	<b>4.8%</b>

All figures refer to the Hannover Region.

Source: bulwiengesa AG; Hannover Region surveys; current space is an update based on existing space surveys from Q4/2022, information from market participants; data as at Q2/2023, and own calculations.

## Sustained high demand, rising peak rents

The Hannover Region is a key national and European logistics hub within Germany's logistics regions and an important port hinterland location for seaports in northern Germany. Industrial and logistics properties are in particular demand from retail and industrial businesses.

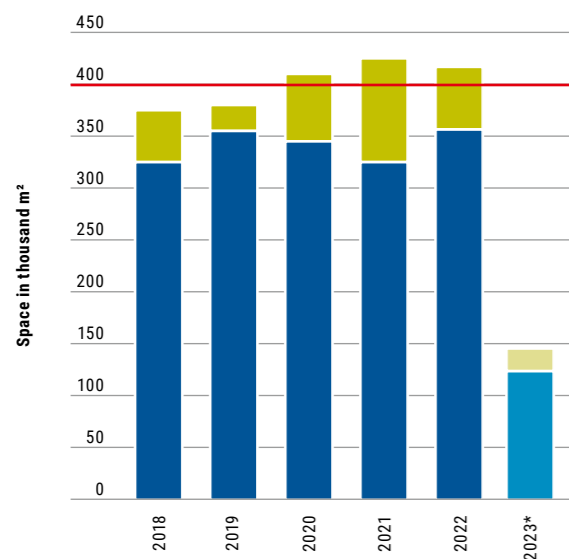
Many downstream contract logistics companies, courier, express and parcel service providers have settled at the location or expanded their service portfolio. Key features of the market are the regional logistics industry's own high level of added value and it having long since ceased to be a just provider of storage and transport services.



## MARKET MOOD: SUSTAINED HIGH MARKET ACTIVITY



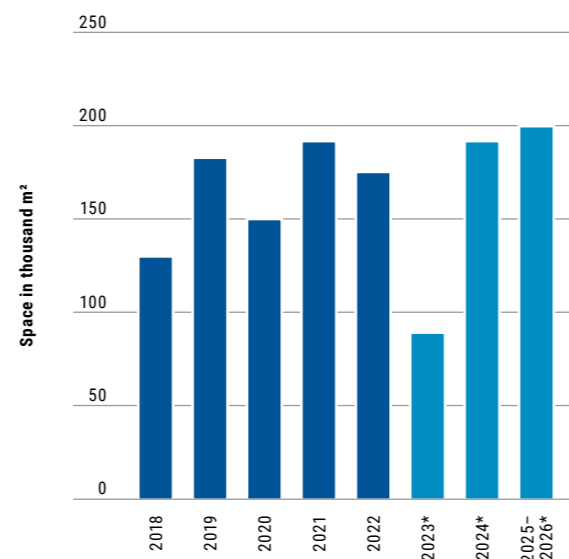
### Logistics/production space turnover in the Hannover Region 2018 to 2023



■ Rental ■ Owner-occupied  
— Average 2018 to 2022

Source: Hannover Region surveys and own calculations  
Information from market participants, data as at Q2/2023

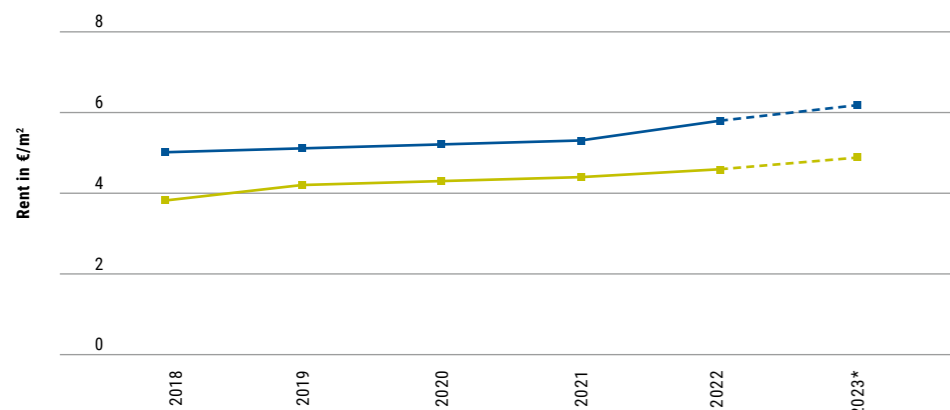
### Logistics/production completions in the Hannover Region 2018 to 2026



Source: Hannover Region surveys and own calculations, data as at Q2/2023\*

\* Based on currently known projections

### Rents for logistics and warehouse space 2018 to 2023



■ Peak rent for logistics and warehouse space ■ Average rent for logistics and warehouse space

Source: bulwiengesa AG

\* Achievable rents based on information from market participants, data as at Q2/2023

## MARKET MOOD AND TRENDS

Market participants have been observing for several years a strong increase in demand for logistics and production space in the region. Since 2018, annual demand has stabilised at around 400,000 m². This solid and high demand is being met by a supply of as-new existing properties and project developments. In the past five years (2018 to 2022), around 820,000 m² of warehouse space for logistics and production has been built in the Hannover Region. Projects planned or already known for the years 2023 to 2026 total around 480,000 m² of space. However, the polycrisis situation is bringing increased uncertainty to the current pipeline of projects. Projects that have already been widely publicised are also facing delays, and some are being postponed to future years.

### Warehouse space turnover at its highest in 2022 – peak rents on the rise

The sector has had several highly dynamic years, with warehouse space turnover reaching an all-time high of 420,000 m² at the end of 2022. This corresponds to an increase of around 6% or a plus of 25,000 m². Peak rents increased significantly to €5.80/m² by the end of 2022 (up 50 cents), with up to €6.20/m² estimated to be achievable during 2023. Depending on location and levels of equipment, individual properties can achieve even much higher rents.

### Making supply chains resilient to crises – increased demand for warehouse space

Over the past three years, challenges for the logistics sector and industry have continued to grow. Demand for modern logistics and production space is increasing due to trends such as: a return to warehousing because of disrupted supply chains, re-shoring and near-shoring of production facilities to Germany or neighbouring European countries, and the currently weak but expected continued growth in online retailing. Restructuring is being driven by the energy transition, dig-

italisation and the increasing importance of electromobility for the automotive industry, from which the logistics and production property market is fundamentally benefiting. As a result there continues to be increased demand for space and high utilisation of logistics infrastructures in the courier, express and parcel services sector.

### Logistics and production properties are in demand, supply is becoming scarce

Market participants are generally positive about 2023. Vacancy rates are lower than they have been for years. Rental prospects are considered to be good to very good across the board. But the market is still dominated by a supply-demand imbalance.

Because warehouse space has been lacking, the ongoing high demand could not be reflected in corresponding space turnover. Just under 100,000 m² of hall space turnover was recorded in the Hannover Region in the first half of 2023. A marked rise in rents and lack of alternatives also mean that users are increasingly extending expiring leases where possible, resulting in less movement in the market.

The extent to which logistics and industrial businesses will suffer from inflation, the energy crisis and the economic downturn, and whether this will lead to a decline in demand on the property market also remains to be seen.

### The Hannover Region is a strong and resilient logistics location

Market participants have for many years viewed the Hannover Region as a strong and stable location for logistics and industry. Policy-makers and public administrators have responded in recent years with a more sustainable land policy with municipal actors focusing more on **regenerating brownfield sites** in addition to more economical and targeted **land use planning**.

**Brownfield sites** are therefore increasingly becoming a focus for developers. Rather than focusing on designating new commercial premises on greenfield sites, municipalities are following strategic commercial land policies to secure commercial land in a targeted way and to facilitate integrated solutions. In the coming years, demands for sustainable action are likely to become louder. Municipalities and businesses will focus even more on revitalising existing buildings and pre-owned commercial sites.



THE HANNOVER REGION IS A STRONG AND RESILIENT LOCATION FOR LOGISTICS AND PRODUCTION.



# RESIDENTIAL PROPERTY MARKET



## Residential

### Rents 2023

Newbuild, peak rent in €/m <sup>2</sup>	16.90
Newbuild, average rent in €/m <sup>2</sup>	13.40
Re-let, peak rent in €/m <sup>2</sup>	13.80
Re-let, average rent in €/m <sup>2</sup>	9.80

### Home buying 2023

Owner-occupied apartment, newbuild, prime group in €/m <sup>2</sup>	6,300
Owner-occupied apartment, newbuild, average in €/m <sup>2</sup>	5,050

### Multipliers 2023

Apartment blocks / investment properties, newbuild, prime group	24.0
Apartment blocks / investment properties, newbuild, average	21.0
Apartment blocks / investment properties, stock, prime group	22.5
Apartment blocks / investment properties, stock, average	20.0

All figures refer to the State Capital Hannover.

Source: bulwiengesa AG; data from market participants, data as at Q2/2023

## Decline in purchase prices evident, risk increases

Regional businesses and, most importantly, demand from private households shape the residential property market in the Hannover Region. Population trends in the state capital and neighbouring municipalities in recent years have meant a general increase in demand on the residential property market across all supply segments and price classes.



**MARKET MOOD:**  
MOMENTUM COOLS,  
POLYCRISIS IMPACTS  
DEMAND AND SUPPLY.



## MARKET MOOD AND TRENDS

### Noticeable restraint in purchasing demand

Prices in the residential property market have sunk over the past twelve months. The momentum of recent years regarding rents, yields and purchase prices has currently come to a halt, and a more or less strong slowdown of some segments of the market is to be expected. Purchasing budgets are falling for private households across the board under the current financing and building conditions, and risks in expected returns are increasing for institutional investors, project developers, housing companies and cooperatives.

High interest rates are increasingly restricting the financial scope of potential buyers. Banks are looking more critically at financing, leading to lower budgets, especially for private households, who are having to spend a significantly higher proportion of their disposable income on housing and (also higher) ancillary costs than they have been accustomed to in the past decade. Even for institutional investors, high leverage ratios are currently not viable. Consequently, market participants have perceived a more than significant reduction in transaction volumes over the first half of 2023.

The re-owned property market in particular is currently showing signs of a trend reversal. The previously described effects are causing a strongly perceptible decline in purchase demand, with pre-owned property prices in particular being the first to react by falling. For example, prices for semi-detached houses, terraced houses and flats in the region fell by an average of 10% in the first quarter of 2023 compared with the same quarter of the previous year (2022), while prices for detached properties fell by around 14%. However, the supply of residential units in particular remains scarce in the state capital and is cushioning prices more than in the surrounding area.

Asking prices for pre-owned flats in the city of Hannover fell by 14% in the first quarter of 2023 compared to the same quarter of the previous year, semi-detached and terraced houses were around 11% cheaper, detached houses 18%\*.

Market participants believe that these sample observations for pre-owned properties can be applied only to a limited extent to price developments presented in the Property Market Report for existing flats in new buildings and in good locations. However, market participants are expecting initial declines of around 3% in purchase prices in the course of the year for new builds.

The difficult to assess situation in the residential property market can be better grasped by looking at so called multipliers, which are used as important indicators in the highly professionalised and for investors relevant market for apartment buildings. Market participants believe that transactions for these properties essentially came to a standstill in mid-2023. According to the few perceived and completed transactions, offer prices and thus multipliers have fallen by up to a third, partly in anticipation of stricter energy efficiency requirements, especially for existing properties, following amendments to the German building energy law [*Gebäudeenergiegesetz*] as well as EU taxonomy requirements. Market participants currently see the multipliers forecast for 2023 in the property market report as reflecting primarily the negotiating position of buyers, while sellers are taking a wait-and-see approach. Pricing, especially for new-builds, is a process that has not yet been completed. In view of the low transaction activity and realisable rent developments, the presented reference values can currently only be seen as an initial trend estimate for 2023.

\* Source: LBS Nord

Kronsrode Mitte, Baufeld 1.2, Hannover







### Energy costs and requirements further increasing pressure on tenants and landlords

The rental market is coming under increasing pressure. One reason are tenants, who would otherwise buy, remaining in an already narrow market and thereby increasing demand further. Looking at rental price trends presented in the Property Market Report, market participants expect rents to continue to rise in both new and existing buildings in good locations, peaking at up to €16.90/m<sup>2</sup> in new buildings and €13.80/m<sup>2</sup> for re-lets in the prime price segment.

Any short-term relief for tenants in the form of lower ancillary energy costs (following upgrading of existing buildings) is not in sight due to the huge demand for renovation work and rising building material costs. Building owners are also currently uncertain about upgrading existing buildings and are waiting as the debate around amendments to the German building energy law [Gebäudeenergiegesetz] continues, even though rent increases might then be possible for energy-efficient upgrading.

For ongoing projects and those already long in planning, the above effects are not yet fully evident in all cases. Most of these projects are already under construction and investor financing is still partly being secured at former conditions. However, there are delays to new projects and, in some cases, to sections of already planned construction sites due, among other things, to the rising cost of building materials, fragile supply chains and a shortage of skilled workers. Consequently, a lack of urgently needed housing is expected, which will further increase pressure in the rental market.

\* To help compare rents for prime locations shown in the Property Market Report: The current rent index for the city of Hannover is from 2021 and shows a rent range of €10.16 to €14.19 per square metre for good residential locations and new or as-new flats (built in 2010 or later) with more than 85 m<sup>2</sup> of space. The rent index will not be updated until the beginning of 2024. Further information and more differentiated evaluations for different building age categories, sizes and locations for all 21 municipalities in the region can be found at [www.hannover.de/mietspiegel](http://www.hannover.de/mietspiegel).

### Scepticism around further developments

The many and to some extent mutually reinforcing effects are causing major uncertainty on both supply and demand sides. However, because many large housing projects have been initiated in the city (Kronsberg, Wasserstadt Limmer), market participants are not expecting any sharp decline in completion numbers in Hannover, at least not in the current year, even though approval numbers are already falling.

Regional actors see a need for action to meet the uninterrupted demand for affordable and/or subsidised housing even under the current conditions. According to project developers and housing companies, the scope for price increases for privately financed housing has been exhausted. Market participants see these changes in the market as something that must be accepted and taken into account in further framing of conditions for housing construction.

### Public sector measures

The state capital and the Hannover Region provide housing funding schemes and the state of Lower Saxony extensive subsidy programmes to promote social housing – for both low-income and middle-income households. The Hannover Region's housing initiative *WohnBauInitiative* (WoBI) supports its towns and municipalities in providing housing and promotes more and denser housing construction, especially in the multi-unit market segment. The initiative uses various instruments to support municipalities in the region in the areas of inner development as well as reactivation of existing properties and land reactivation strategies. This includes raising awareness among local politicians on the issues of multi-unit housing construction, higher densities and sustainability (heat supply). Planning authorities and the local property sector are networking to discuss the future of modern housing, which needs to be contem-

porary, affordable and sustainable. The state capital of Hannover is also striving to extend and expand its successful housing initiative with the regional housing industry and to continue its housing concept through to 2035.

### Short- and long-term market developments clearly leaving their mark

Many potential investors and project developers are merely observing markets because they are being unsettled by interest rates, inflation, energy prices and the consequences of war in Ukraine, the ending of the corona pandemic and the advancing climate crisis. The escalating crises and challenges currently seem too uncertain and unpredictable. When things settle and stabilise, buyers can be expected to return to the regional market and price expectations on both sides will adjust accordingly. Current forecasts show a slump in prices and asking prices, both for existing and new buildings. Distress sales of core projects are not to be expected. However, project developments will undergo revaluations when the combination of rising construction costs, interest rates and narrowing exit factors mean that calculations based on earlier assumptions no longer apply.

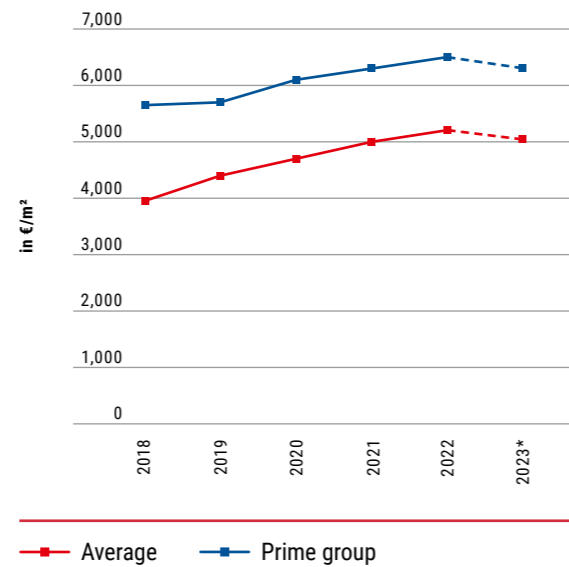
➤➤ SUSTAINABILITY AND ENERGY EFFICIENCY CLEARLY IMPACTING THE RESIDENTIAL PROPERTY MARKET.







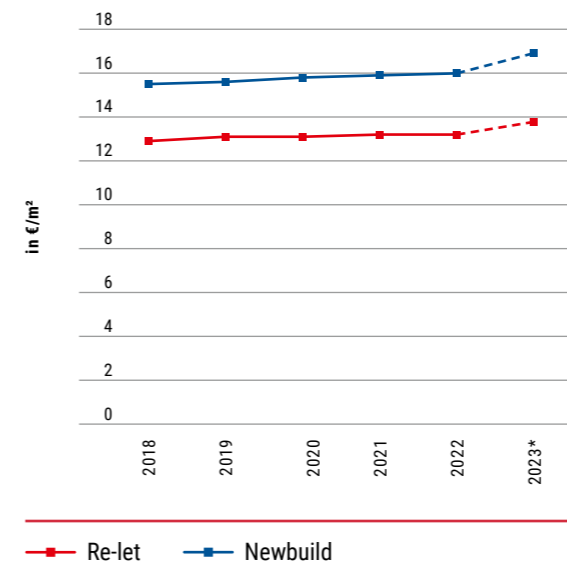
**Purchase prices of owner-occupied apartments (newbuilds) in Hannover 2018 to 2023**



Source: bulwiengesa AG

\* Forecast based on information from market participants, data as at Q2/2023

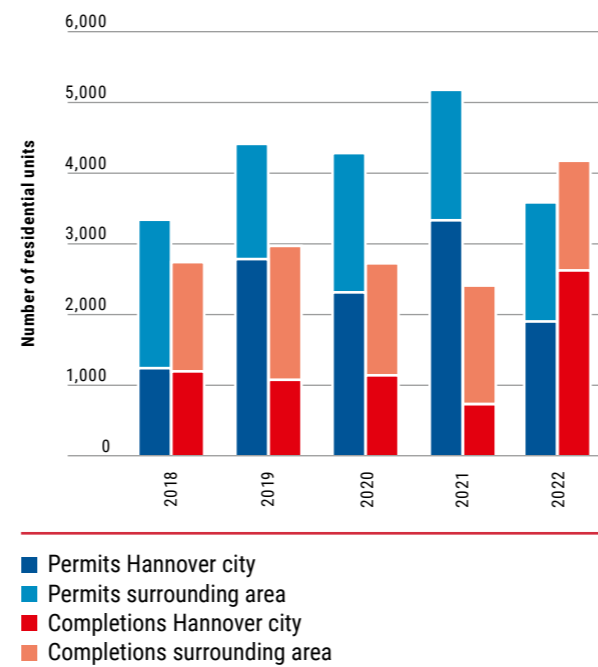
**Residential rents in the prime price segment in Hannover 2018 to 2023**



Source: bulwiengesa AG

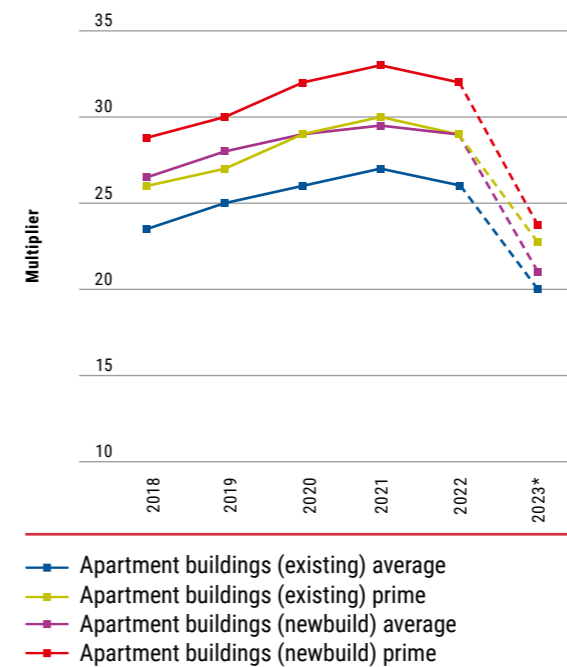
\* Forecast based on information from market participants, data as at Q2/2023

**Building permits and completions City and Hannover Region 2018 to 2022 (based on residential units)**



Source: State Office for Statistics of Lower Saxony (Landesamt für Statistik Niedersachsen), 2023 (Construction of new residential and non-residential buildings; excluding construction measures on existing buildings and excluding residential homes; time series M8100116 and M8090116)

**Residential properties – Multipliers in Hannover 2018 to 2023**



Source: bulwiengesa AG

\* Forecast based on information from market participants, data as at Q2/2023







# RETAIL PROPERTY- MARKET

Retail	
<b>Sales area Hannover Region in m<sup>2</sup></b>	<b>2.1 m</b>
Surrounding area	1.2 m
Hannover city	0.9 m
of which inner city Hannover (Mitte district)	253,000
<b>Retail centrality 2023 (Germany = 100)</b>	
Hannover city	119.8
Surrounding area	107.6
<b>Retail purchasing power 2023 in €</b>	<b>8.98 b</b>
Hannover city	4.1 b
Surrounding area	4.88 b
<b>Retail sales 2023 in €</b>	<b>8.14 b</b>
Hannover city	4.14 b
Surrounding area	4.0 b
<b>Rents 2023</b>	
Peak rent, prime city location, in €/m <sup>2</sup> *	170
Average rent, prime city location, in €/m <sup>2</sup> *	120
<b>Yields 2023</b>	
Net initial yield in prime locations*	4.8%
Net initial yield in specialist retail centres	5.4%

\* Bahnhofstrasse, Grosse Packhofstrasse, Georgstrasse

Source: Retail portfolio surveys commissioned by the Hannover Region (2017); Retail and centre concept, local amenities concept and integrated entertainment venue concept for the state capital Hannover (2019); MB Research 2023; estimates from market participants, data as at Q2/2023

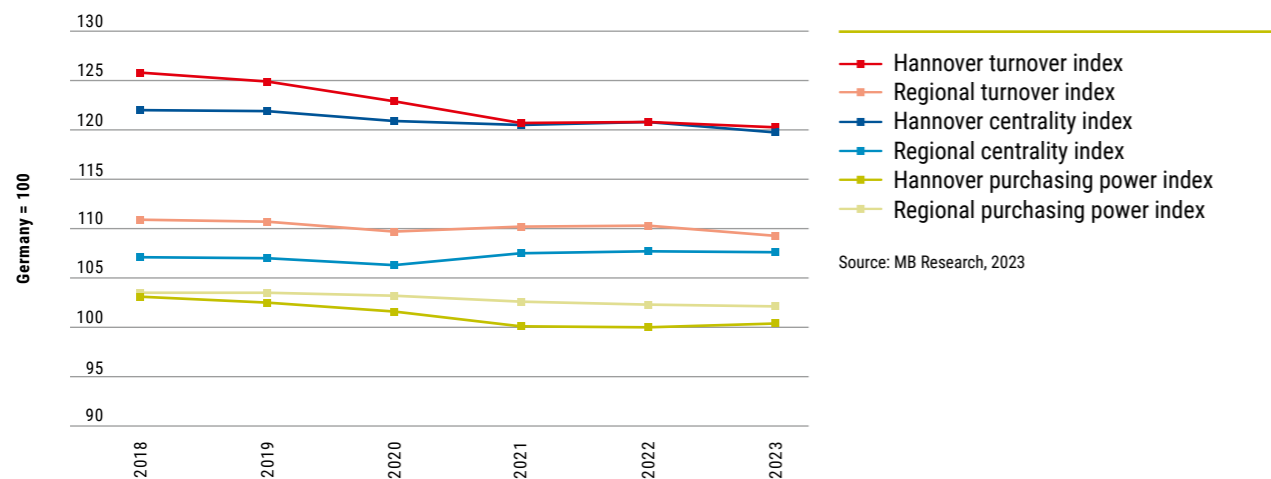
## The Hannover Region is one of Germany's strongest retail locations in turnover

In terms of turnover, the Hannover Region is one of the strongest retail locations in Germany. Forecasts for 2023 put retail turnover for the region at around €8.14 billion. In addition to the Hannover city centre with its prime locations in Georgstraße, Große Packhofstraße, Bahnhofstraße and Karmarschstraße, Hannover's retail location is characterised throughout the region by specialist retail centres, shopping centres, city district locations and attractive town centres in the surrounding areas.

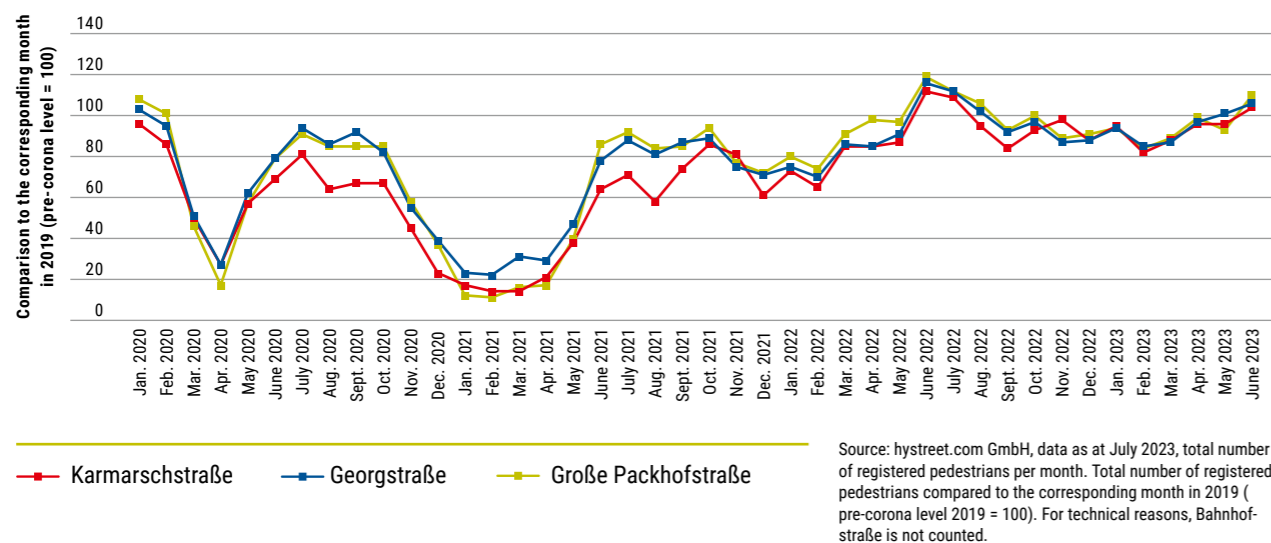
➤➤ **MARKET MOOD:**  
RETAIL AND CITY  
CENTRE IN THE MIDST  
OF TRANSFORMATION.



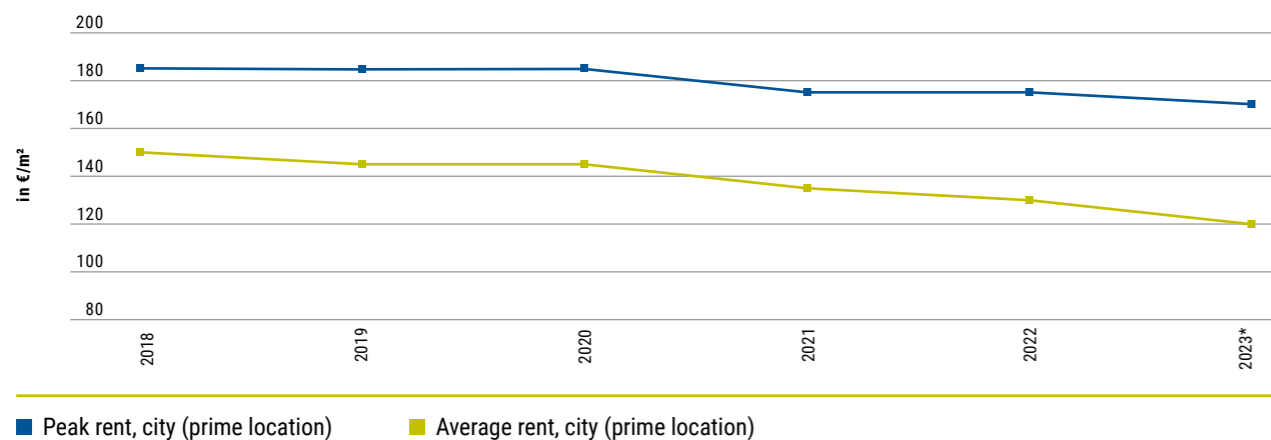
## Retail indexes 2018 to 2023



## Collapse and recovery of pedestrian footfall in Hannover city centre 2020 to Q2/ 2023 compared to 2019



## Retail rents 2018 to 2023



## MARKET MOOD AND TRENDS

Footfall in Hannover city centre is currently back above pre-corona levels. Market participants have already registered almost 4,000 m<sup>2</sup> of turnover in the first half of 2023, despite all the difficulties (five-year average 2018 to 2022 is around 4,700 m<sup>2</sup> per year for prime locations in Hannover).

While peak rents in prime locations stabilised at around €175/m<sup>2</sup> at the end of 2022, market participants expect this figure to fall slightly to around €170/m<sup>2</sup> in 2023. Locations where peak rents are considered achievable by market participants are narrowing. Outside of the absolute prime locations, rents are clearly falling. Peak rents in many German retail metropolises remain virtually constant or are falling only slightly despite visible vacancies and general economic restraint.

Retail and city centres are experiencing a challenging transformation process. Insolvencies and strategy changes, especially in large department stores, specialist fashion retailers and restaurants/cafés, are leaving visible gaps or causing movement in Hannover's city centre locations and mid-sized centres in surrounding areas. The current situation is generally leading to a significant reduction in the presence of chain stores in traditional retail locations. This is increasing pressure on retailers, but also creating space for new concepts and new ideas.

### Structural changes in the city centre

Far-reaching structural and strategic changes are imminent, especially in Hannover city centre, not least due to the vacancy of the former Karstadt department store in Georgstraße and Galeria Kaufhof at Marktkirche. The corona pandemic, inflation and the consumer restraint caused by these and other crises are not to be seen as triggers for the difficulties facing bricks-and-mortar retail but rather as consolidating existing trends in the retail sector.

### Retailers wait and see

Urban district locations and integrated retail locations in the surrounding areas seemed to benefit from their proximity to customers and their function as local suppliers of essentials, especially during the corona pandemic. These locations have now also come under increasing pressure due to rising inflation since mid-2022. Many retail businesses are also adopting a wait-and-see, cautious approach in these locations, which is impacting the demand and positioning of retail properties on the investment market. The net initial yield for prime locations is expected to rise to 4.8% in 2023, and to 5.4% for specialist retail locations.

### InnenstadtDialog Hannover: New concepts – climate-neutral and more crisis-resistant

Some retailers are already reinventing themselves, for example, with showroom and flagship store concepts that address customers more emotionally and link brick-and-mortar retail more closely with their own online offerings. Spaces becoming vacant or newly developed spaces are also more frequently being occupied by stores supplying essential local needs, the locations of which are more resilient in crisis situations.

However, overall demand for space is falling, so that creative concepts to revitalise the city centre, such as the inner city dialogue [InnenstadtDialog] initiated by the City of Hannover administration in 2021, are becoming more

relevant. The concept takes an integrated approach in which urban planning, traffic, cultural, ecological, social as well as economic aspects are interwoven. It provides a basis for long-term goals. For example, the city of Hannover is to be climate-neutral by 2035 and the inner city itself is to become more crisis-resistant and resilient.

### aufhof: An inner-city experimental space

aufhof in the former Kaufhof department store at the Marktkirche is characteristic of the city centre's transformation. Since June, project "aufhof" on the building's 5,000 m<sup>2</sup> ground floor has been a forum for urban development and building culture, for innovative and tangible science and for a creative approach to the future challenges of the city. It exemplifies the transformation of the inner city, which needs to adapt to the consequences of climate change, economic and social changes and digitalisation in all areas of life.



GROWING PRESSURE ON RETAIL AND CITY CENTRES: NEW CONCEPTS NEEDED.



# HOTEL PROPERTY MARKET

## Overnight stays up by 65%

Following the corona years of 2020 and 2021, since 2022 signs of recovery in the hotel market have been evident. Last year, almost 3.6 million overnight stays were recorded in the Hannover Region. This is still around 21% fewer than in the 2019 record year, but with an increase of 1.4 million overnight stays, significantly more guests than in 2021 (65% more). By mid-2023, the number of overnight stays was around 1.9 million (up 25% compared to the first half of 2022 and just 6.5% below the first half of 2019).

Establishments providing accommodation appear to be returning to previous occupancy levels and are increasing supply. In 2022, they were supplying an annual average of just under 32,900 beds, around 5,130 beds more than in 2021.



## MARKET MOOD: SUPPLY AND DEMAND PICKING UP SIGNIFICANTLY.

Source: State Office for Statistics of Lower Saxony [Landesamt für Statistik Niedersachsen]; MKG Consulting, data as at Q2/2023

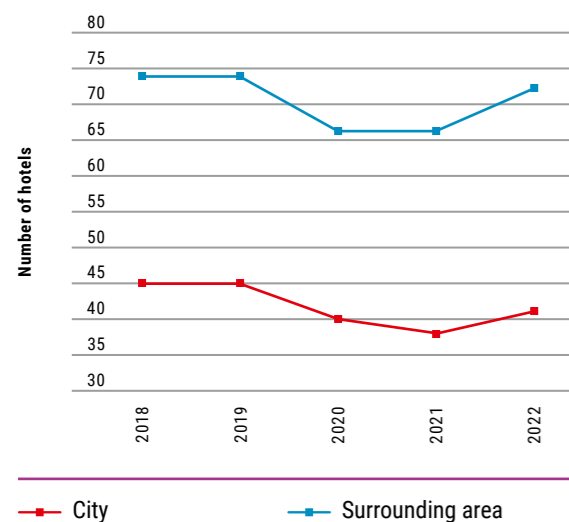
Data for the hotel market generally refers to the 2022 annual average.

Hotel	
<b>Number of tourist accommodation establishments 2022</b>	<b>333</b>
Hannover city	115
Surrounding area	218
<b>Hotels 2022</b>	<b>113</b>
Hannover city	41
Surrounding area	72
<b>Number of beds (all accommodation types) 2022</b>	<b>32,882</b>
Hannover city	16,096
Surrounding area	16,786
<b>Beds in hotels 2022</b>	<b>16,045</b>
Hannover city	10,273
Surrounding area	5,772
<b>Nights (all accommodation types) 2022</b>	<b>3.6 m</b>
Hannover city	2.03 m
Surrounding area	1.57 m
<b>Nights in hotels 2022</b>	<b>1.92 m</b>
Hannover city	1.23 m
Surrounding area	0.69 m
<b>Arrivals (all accommodation types) 2022</b>	<b>1.88 m</b>
Hannover city	1.17 m
Surrounding area	0.71 m
<b>Average length of stay in days (all accommodation types) 2022</b>	
Hannover city	1.7
Surrounding area	1.9
<b>Key figures for hotel chains, Hannover city (Fairmas/ STR) 2022</b>	
Occupancy rate	56.6%
Room price in €	95.90
RevPAR (revenue per room) in €	54.30
<b>Net initial yield hotel 2023</b>	<b>5.6%</b>



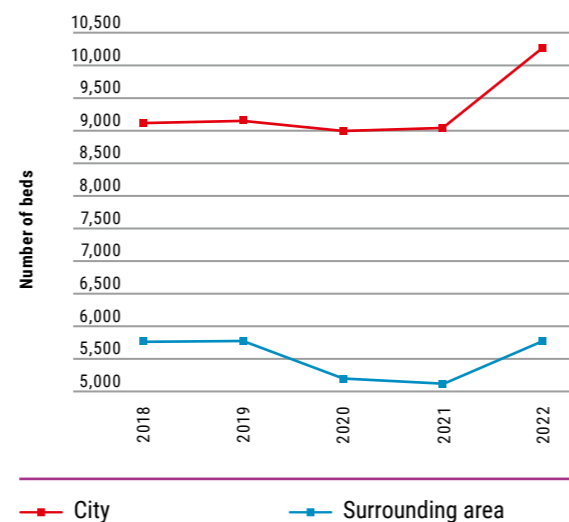


### Development of hotel businesses 2018 to 2022



Source: State Office for Statistics of Lower Saxony [Landesamt für Statistik Niedersachsen], 2023 (annual average values, based on open hotels, excluding hotel garnis)

### Development of hotel bed numbers 2018 to 2022



Source: State Office for Statistics of Lower Saxony [Landesamt für Statistik Niedersachsen], 2023 (annual average values, based on open hotels, excluding hotel garnis)

### Key data for the Hannover hotel market 2018 to 2022

	2018	2019	2020	2021	2022
Hotels	45	45	40	38	41
Average occupancy in %	67.8	72.2	32.1	35.1	56.6
Average room price in €	99.20	93.70	78.80	68.30	95.90
RevPAR (revenue per available room) in €	69.00	67.60	25.30	24.00	54.30
Average length of stay (in days)	1.7	1.7	1.8	1.8	1.7
Beds in hotels	9,118	9,154	8,989	9,039	10,273

Source: Figures for Hannover city; State Office for Statistics of Lower Saxony, MKG Consulting, 2023

### Overnight stays in the Hannover Region



Source: State Office for Statistics of Lower Saxony [Landesamt für Statistik Niedersachsen], 2023, Table Z7360151

## MARKET MOOD AND TRENDS

Overnight stays were at an all-time high in 2019 at 4.25 million per year in the city and surrounding areas. These plummeted from 2020 onwards, due primarily to major trade fairs being cancelled as a result of the pandemic restrictions. In 2020 and 2021, many establishments were no longer offering full capacity. In 2022, the curve pointed clearly upwards.

### Numbers back to pre-corona levels from mid-2022

In 2022, just under 3.6 million overnight stays were recorded in Hannover city and the surrounding region. In the city of Hannover alone, the number of overnight stays doubled to around 2.03 million (plus 92%). Performance in 2022 could have been even better were it not for severe restrictions that were still in place from January to April for events, fairs and general gatherings.

Since mid-2022, the numbers have been on the rise. In June, the number of overnight stays was already just above pre-corona levels (compared to June 2019). A total of over 1.5 million overnight stays were recorded in the first half of 2022, and a further 2.1 million in the second half of the year. By mid-2023, a good 1.9 million overnight stays had already been recorded in the city and surrounding area (a 25% increase compared to the first half of 2022).

### Average room rate recovers

Contributing to a marked improvement in bookings and thus occupancy in 2022 was the resurgence of business travel, trade fairs and events, a catch-up on many private celebrations and the absence of pandemic-related constraints. Average room occupancy in Hannover was again a good 57% (up 21.5%).

The average room price rose from a low €68.30 in 2021 to €95.90 in 2022. This resulted in the average revenue per available room (RevPAR) in Hannover improving in 2022 by more than €30 to €54.30.

### Clear increase in supply

Despite the many completions, fewer beds were registered in hotels in Hannover in 2020/2021 due to supply capacities being in part significantly reduced during the corona pandemic. The total number of beds in 2021 decreased by 115 to 9,039 compared to 2019. The new hotels were first reflected in the bed statistics in 2022, with an increase of around 1,120 hotel beds in the city of Hannover alone compared to 2019.

Current market opportunities for new projects are therefore difficult to assess. Hotel projects launched in Hannover and the surrounding area, financed through and secured by operators, were continued during the pandemic. However, delays in all projects have resulted from the uncertainties of rising energy prices, inflation, rising interest rates and the difficult situation in the construction industry.

The list of projects shows that hotel location is fundamental for the property industry. Eight hotels with a total of around 1,250 rooms have opened in the city of Hannover since the beginning of 2020.

Two hotels with a combined 500 rooms are under construction and are expected to open in 2024/2025. The former Loccumer Hof is being overhauled and will open at the end of 2023 as the June Six Hotel with 114 rooms.

It remains to be seen whether all other previously announced projects will actually be realised. Many hotel projects in the planning stage have been delayed or are in the process of being rescheduled.

### Hotels remain an asset class with potential

Hotel transactions in Hannover in 2022 were at a low level (€37 million). The pre-corona expectation of increasing momentum in the market has been in the main suspended. This increased risk has been factored into investor assessments. Market participant expectations for Hannover's peak yield will increase to 5.6% in 2023 (plus 40 basis points).



**EIGHT NEW HOTELS SINCE 2020 – THREE MORE BY 2025**





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