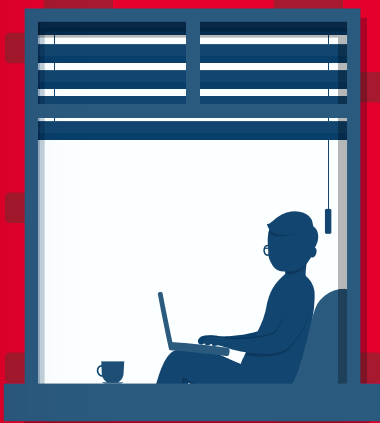
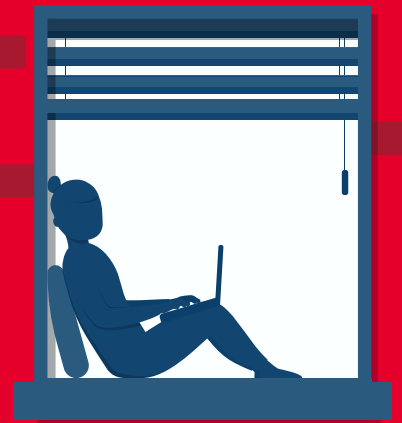
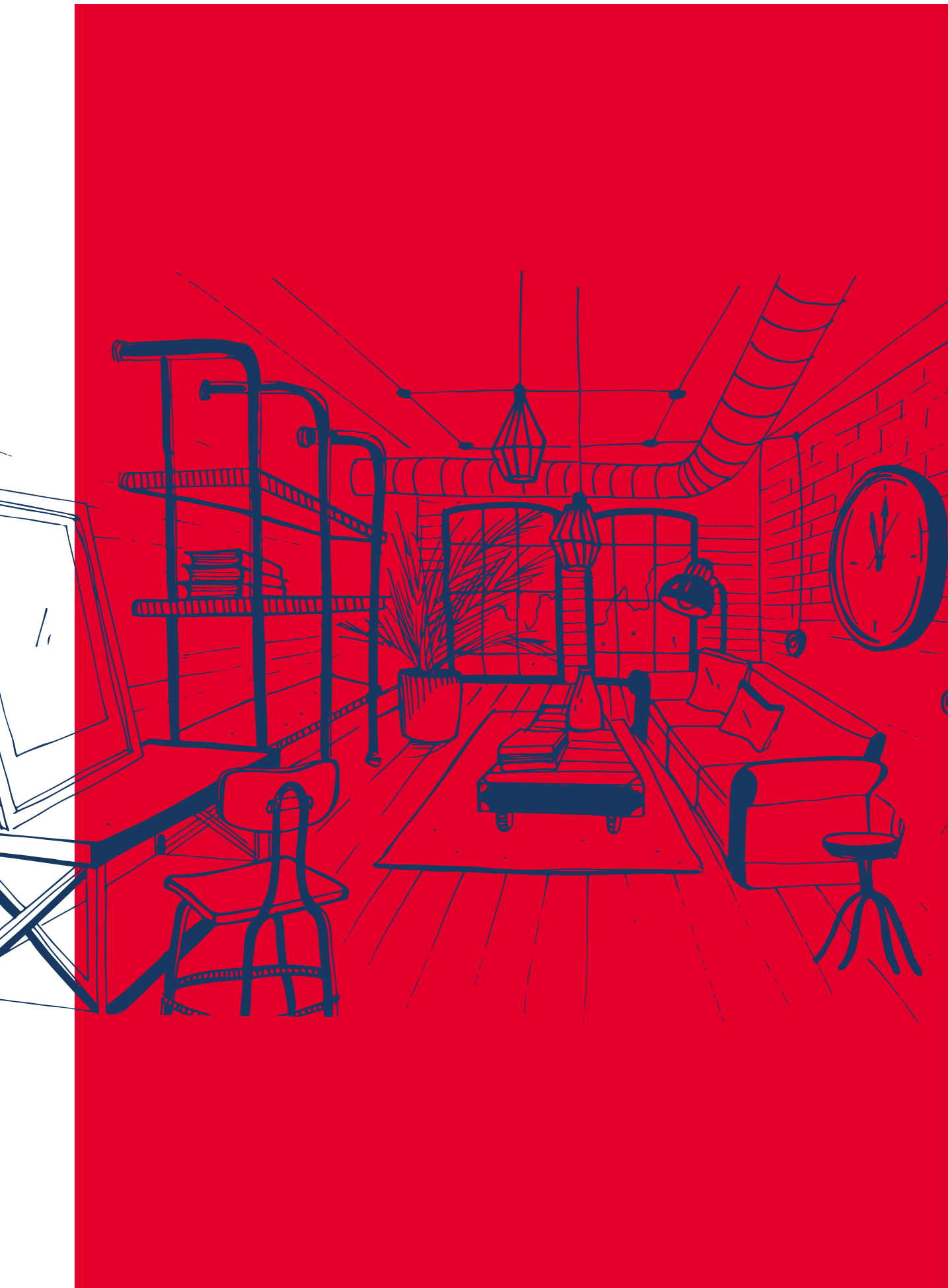


# MICROAPARTMENTS

YOUNG, PROFITABLE & CRISIS-PROOF?





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# FOREWORD

## MORE THAN STUDENT HOUSING

The market for micro-apartments is becoming increasingly attractive. The segment has developed into an asset class in its own right. Both national and international investors are looking at the real estate and operator market and seeking entry. At the same time, the market is still very intransparent and highly fragmented compared to other countries.

Terms such as serviced apartment, business apartment, co-living or temporary living circulate in the market. Different commercial and residential operator concepts focus on various target groups. It quickly becomes clear: microapartments are diverse and much more than small apartments that are only let to students.

The asset class has also proven itself in the COVID-19 pandemic. Certainly, some investors and operators became more cautious. Nevertheless, this is true of almost every asset class. It can be assumed that demand will recover quickly and resume its previous growth course.

But what is the reason for this rapid development and the great interest? What long-term trends are influencing the market? Where does the demand for this type of accommodation come from? How has the transaction market developed in the past? You will find answers to these questions in this report, which provides a detailed overview of the market.

**We hope you enjoy reading about the microapartment market.**



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# PART A

## DRIVERS & TRENDS



# DRIVERS & TRENDS

## 1. LIVING IN TRANSITION: WHICH MEGATRENDS ARE INFLUENCING THE MARKET?

The way we live has changed dramatically in recent years. The main drivers are megatrends that have changed demand and will continue to do so in the future. Academics and young professionals in particular have become much more mobile and change their place of residence more frequently compared to the previous generation. Working environments have changed and the major cities have become a magnet and centre of attraction for young professionals. This

group places new demands on the real estate market. Modern housing concepts that meet the needs of the younger generation are thus in greater demand.

### Drivers of change in the housing market



### URBANISATION

Urbanisation has accelerated in recent years. Cities are increasingly growing at the expense of the countryside. By 2050, it is predicted that the proportion of city dwellers will rise to almost 85% - in comparison, it was around 73% in 1990. Young and well-educated people in particular are drawn to the major cities. This poses new challenges for the housing market.



### KNOWLEDGE CULTURE

Knowledge and information are the new capital. Education and knowledge are among the most important factors in our society. The number of academics and students has risen sharply in recent years and this will continue in the future.



### DIGITISATION

Digitisation not only brings about economic innovation and new industries, but also fundamentally changes our society. Digital applications are becoming increasingly important. Rental offers and services must be digital today as flexibility and availability for tenants and owners are becoming more important.



### MOBILITY

People are becoming less attached to their workplace and place of residence. Mobility in lifestyle and everyday living is increasing. Young people, students and young professionals in particular want to remain flexible in their professional and working lives. This also changes the requirements for housing.



### NEW WORK

What, where and how we work has changed. Service sector occupations account for around 75 % of jobs, while manufacturing and agriculture are declining sharply in proportion. Nowadays, workers are often project-based. The flexibility to work regardless of location is increasingly demanded.

# DRIVERS & TRENDS

## 2. POPULATION GROWTH: WHERE ARE THE HOTSPOTS?

Currently, 83.2 million people live in Germany. Population growth will remain largely stable until 2030 - even if there are regional differences. Especially in the metropolitan regions as well as university and college towns, the population continues to grow at an above-average rate.

The demand for appropriate housing will continue to rise in the high-growth locations. Therefore, housing concepts are also needed that fulfil the new and changed living and working needs. In Berlin alone, further population growth of around 155,000 inhabitants is forecast by 2030. Frankfurt will grow the fastest in percentage terms with growth of 8.7 % by 2030.

### GERMANY

👤 83,166,711  
📈+ 180,289 | +0.2%

### BERLIN

👤 3,683,000  
📈+ 155,750 | +4.2%



### HAMBURG

👤 1,855,000  
📈+ 80,000 | +4.3%



### FRANKFURT

👤 763,464  
📈+ 66,176 | +8.7%



### MUNICH

👤 1,486,114  
📈+ 88,340 | +5.9%



### COLOGNE

👤 1,095,070  
📈+ 72,706 | +6.6%



### DÜSSELDORF

👤 624,239  
📈+ 37,213 | +6.0%



### STUTTGART

👤 639,039  
📈+ 8,623 | +1.3%



Population (2019)

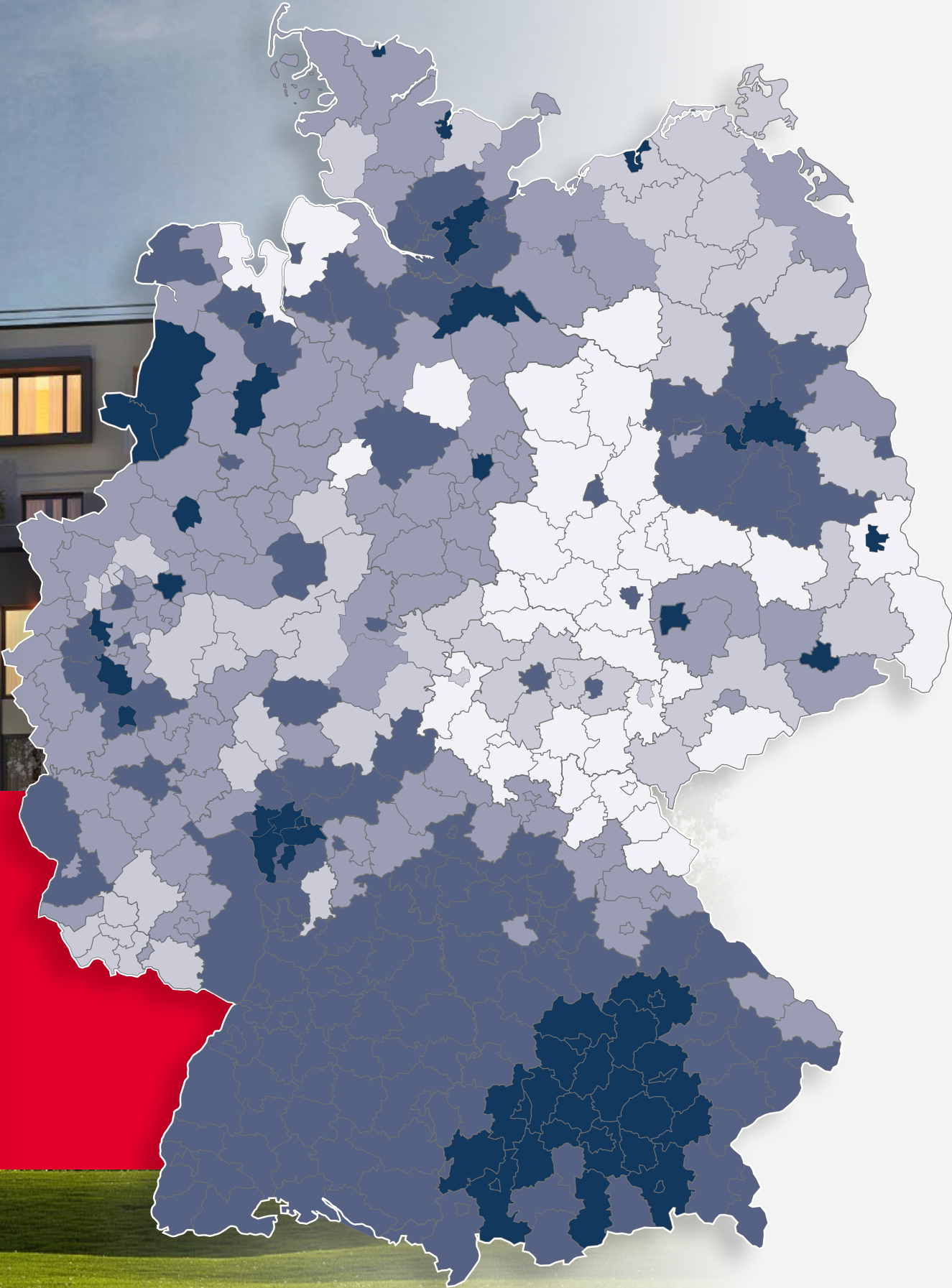
Growth (absolute | percentage) until 2030

Source: Statistisches Bundesamt, 2021



WHERE GERMANY IS  
GROWING AND WHERE  
IT IS NOT

POPULATION PROJECTION TO 2030  
Change 2019 to 2030 in % by county



Source: bulwingsa / Cushman & Wakefield, 2021



# DRIVERS & TRENDS

## 3. IMMIGRATION AND RURAL EXODUS: GERMANY IS MIGRATING

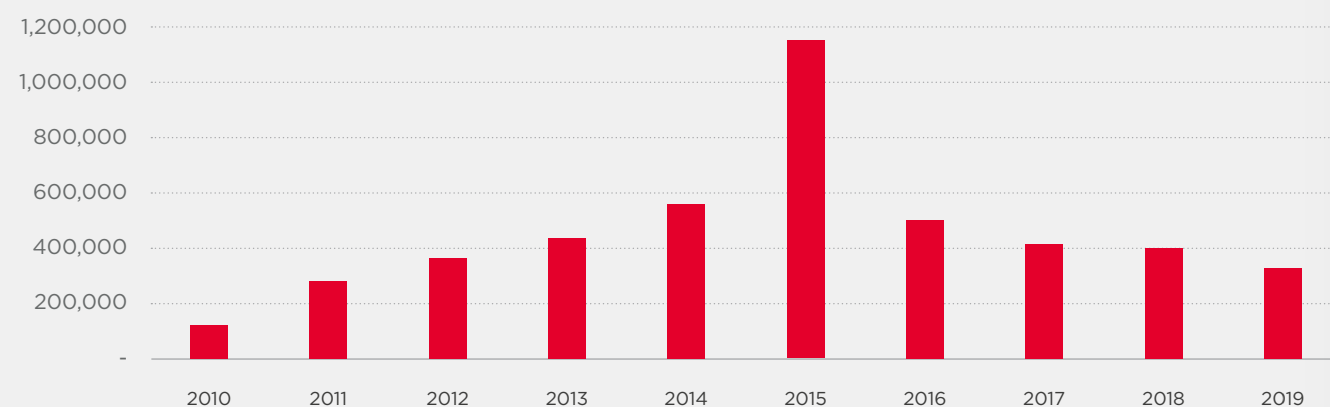
Good educational opportunities attract immigrants

In the past, there were essentially two main drivers of the strong population growth in metropolitan regions and cities: on the one hand, the increased mobility of young educational and professional migrants and, on the other, immigration from abroad.

Since 2010, Germany has recorded a constantly positive migration balance with more immigrants than emigrants. The peak was registered in 2015 with net immigration of over 1.1 million - the main driver here was the European refugee crisis. Regardless of this special situation in 2015, the main reasons for migration are the good educational and labour market opportunities in Germany compared to other countries.

Positive net immigration since 2010

NET INWARD-MIGRATION BALANCE FOR GERMANY OVER TIME



Source: Federal Statistical Office, Cushman & Wakefield, 2021





# DRIVERS & TRENDS

Young people are mobile, families tend to stay in one place.

Metropolitan regions are growing. In addition to international migration, internal migration within Germany is decisive in this. A closer analysis shows: that particularly, young educational migrants (18 to 24 years) and young professionals (25 to 29 years) show a strong positive migration balance to the top-7 cities and the independent metropolitan areas. In addition, people under 30 are increasingly moving from rural and sparsely populated districts to urban regions. This is also due to the good education and job opportunities in the major cities. For the older generation - the retired migrants - the trend is the opposite. Rural regions are becoming more attractive than the big city. Families are less mobile. In contrast to the younger and older groups, they are more sedentary. There is a stronger attachment to the place of residence.

## Inward migration and outward migration per 100 inhabitants

	TOP-7 CITIES	ALL INDEPENDENT TOWNS	DISTRICT TOWNS	RURAL DISTRICTS WITH POPULATION CENTRES	SPARSELY POPULATED RURAL DISTRICTS
Educational migrants	+ 4.23	+ 4.14	-1.46	-2.64	-2.79
Young professionals	+ 3.02	+ 0.50	-0.22	-0.43	-0.38
Family migrants	-1.43	-1.10	+ 0.42	+ 0.57	+ 0.57
Younger retiral migrants	-5.20	-0.30	-0.01	+ 0.18	+ 0.28
Older retiral migrants	-4.14	-0.21	+ 0.04	+ 0.12	+ 0.13

Source: BBSR, Cushman & Wakefield, 2021

### Methodology:

The internal migration balance of young educational migrants and young professionals within the top-7 cities is very positive. In 2017, 4.23 people per 100 inhabitants moved to the top-7 cities. In comparison, younger and older retirement migrants moved away from the top-7 cities more. The split of migration per inhabitant by degree of urbanisation and by age group clearly shows that large cities attract young people and older people with families tend to move to more sparsely populated regions. The matrix fundamentally shows the migration behaviour of the age groups, whereby the development in previous years is very similar. Only registrations and de-registrations of residents' main residences are included. In order to be able to better compare the age groups and regions, the average migration per 100 inhabitants is shown. The five age groups are subdivided into migrants with an educational background (18 to 24 years), those entering the labour market (25 to 29 years), family migrants (between 30 and 50 years and under 18 years) as well as younger (50 to 64 years) and older retiral migrants (65 years and older).



# DRIVERS & TRENDS

## 4. MICROAPARTMENTS: ALTERNATIVE TO CLASSIC HOUSING

There are currently about 41.5 million households in Germany. A plurality of these are single-person households. Since 1970, this number has risen by 69 % - and it will continue to rise, making this the group with the most rapid growth. By 2040, a proportion of 45 % is forecast.

Large cities in particular are already experiencing a shortage of one- and two-bedroom apartments. Images of mass apartment viewings are ubiquitous. Finding an apartment is increasingly becoming a challenge. Microapartments are thus becoming the logical alternative - for newcomers and people who need an apartment temporarily.



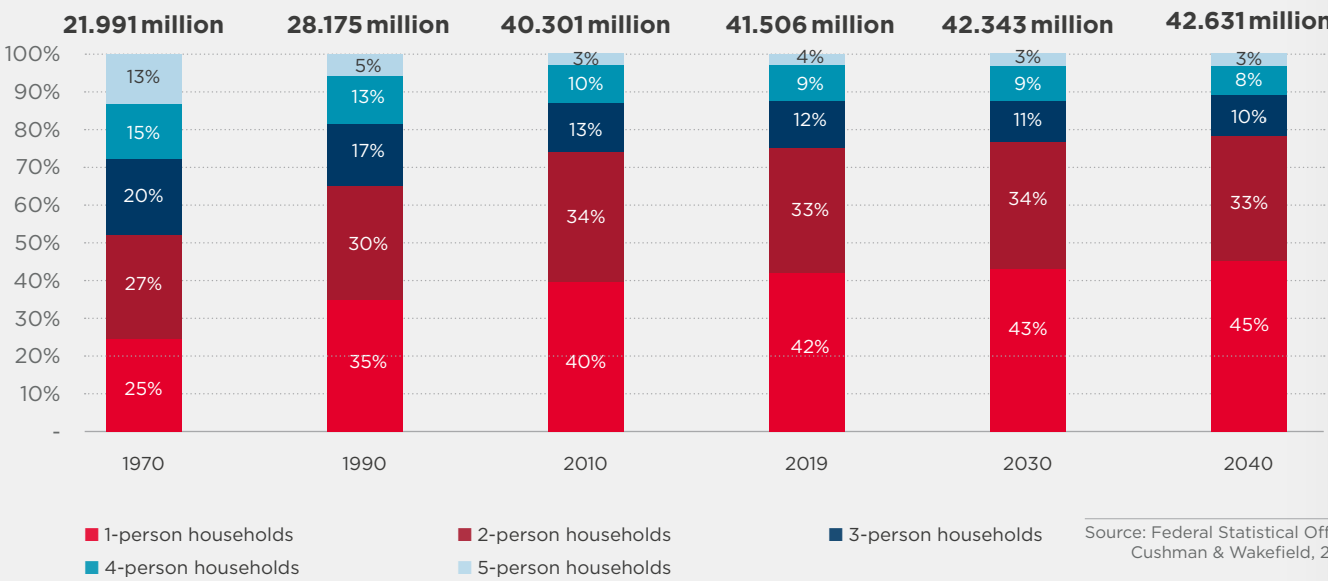
Sought after:  
student housing concepts

The number of students at German universities has been growing continuously since 1970 signalling the change towards a knowledge culture. Education is gaining in importance and is the new capital. In 2020, the number of students in Germany was just under 2.9 million. Compared to 2010, this figure has risen by 32%. Germany's high quality of education is internationally renowned. This is because the proportion of international students is also growing significantly; to around 14% in 2020. This increase will not slow in the future and will bring constant demand for housing - especially for modern student housing concepts.



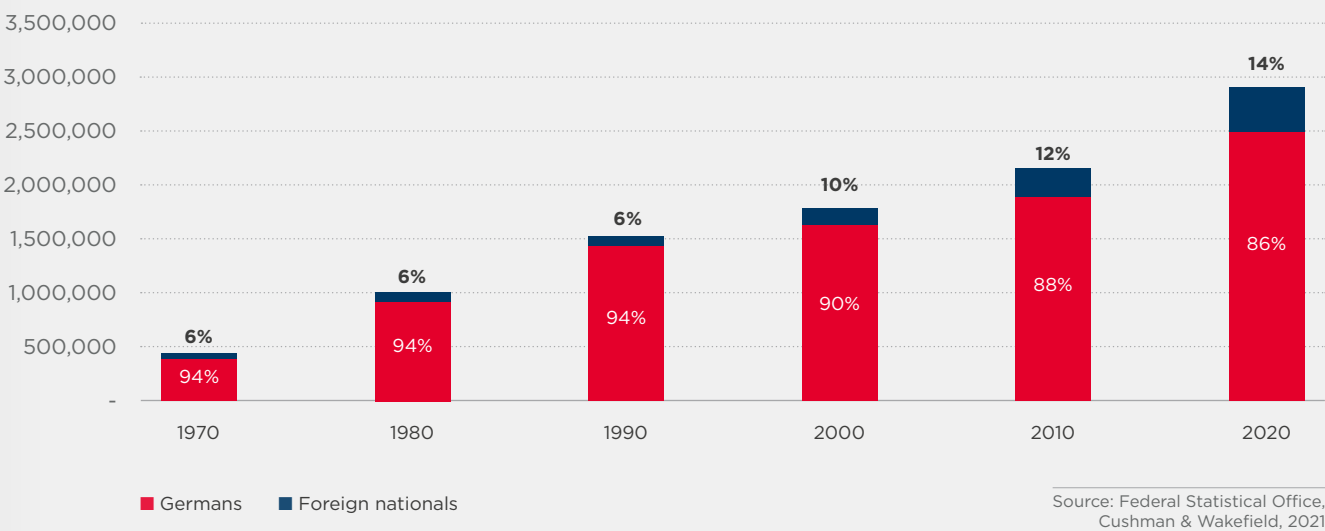
Proportion of  
foreign students is increasing

NUMBER OF HOUSEHOLDS OVER TIME



The number of single-person households has been growing since 1970

PROPORTION OF FOREIGN STUDENTS IS INCREASING





# DRIVERS & TRENDS

## 5. INCREASING EMPLOYMENT: SERVICE PROVIDERS AND EXPERTS DOMINATE

Three-quarters of the workforce in Germany are service providers

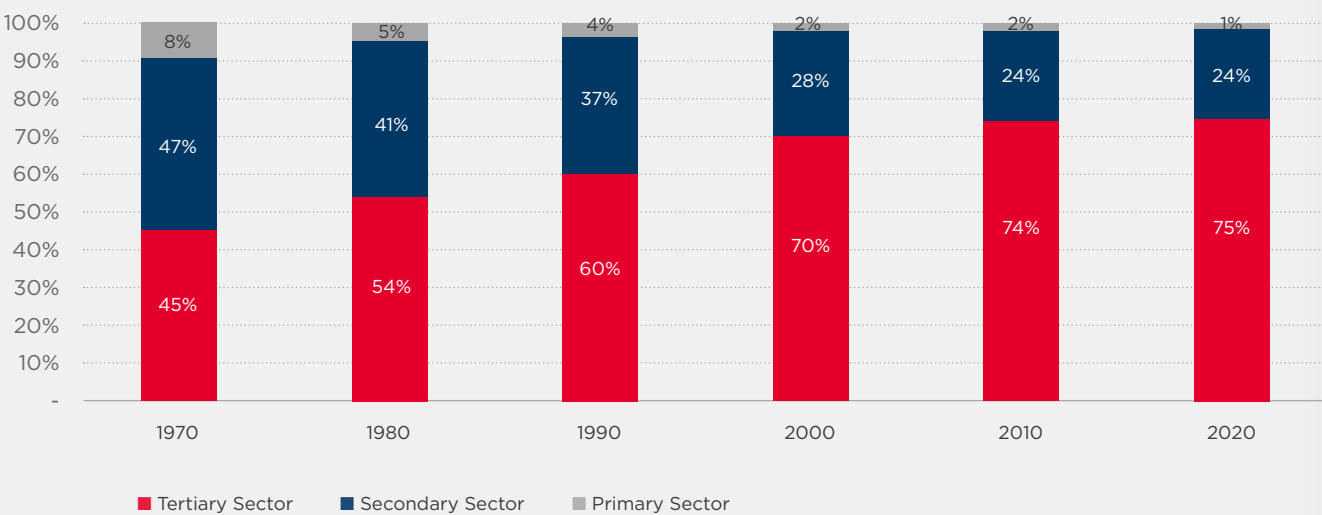
The world of work has been shifting towards the service sector for decades. While agriculture, forestry and manufacturing together accounted for more than 50% of the workforce in 1970, this had fallen to only around 25% in 2019. The growing service sector is creating new jobs, especially in Germany's major cities.

The top-7 locations and metropolitan regions in particular are establishing themselves as economic motors and locations for future-oriented companies and industries. While the service

sector accounts for about 88 % of jobs there on average, the national average is just under 75 %.

Interdisciplinary teams that bring specialist know-how are more sought after than ever. Project work is thus gaining in importance. Teams of experts often work together for a few weeks or months, and are deployed where needed - mobility and flexibility are gaining in importance.

DEVELOPMENT OF ECONOMIC SECTORS IN GERMANY



Source: Federal Institute for Civic Education, Cushman & Wakefield, 2021

Large city, many employees

- Employment figures are rising. Since 2010, the number of employees subject to social insurance contributions has increased by 19.5 %. The record of 46.5 million employees was set in 2020. The A-cities are recording above-average increases. The number of employees subject to social security contributions in these cities has risen by 26.9% since 2010.
- 

The number of inhabitants also plays a role: the larger the city, the more large companies settle there. They often score points in the war for talent over smaller and medium-sized companies. And thus ensure higher employment figures.

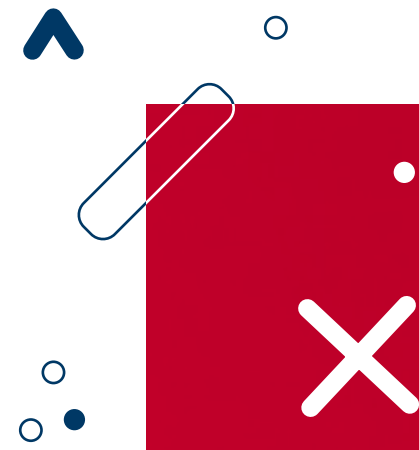


The number of employees is rising particularly strongly in the major German cities



Source: Federal Statistical Office, Cushman & Wakefield, 2021





# PART B

## ASSET-CLASS & MARKET





# ASSET-CLASS & MARKET

## 1. MICROAPARTMENTS: CLASSIFICATION IN THE REAL ESTATE MARKET

Microapartments: Between house and hotel

Even if different terms and concepts circulate for the asset class - microapartments have the limited residential period and operator concept in common.

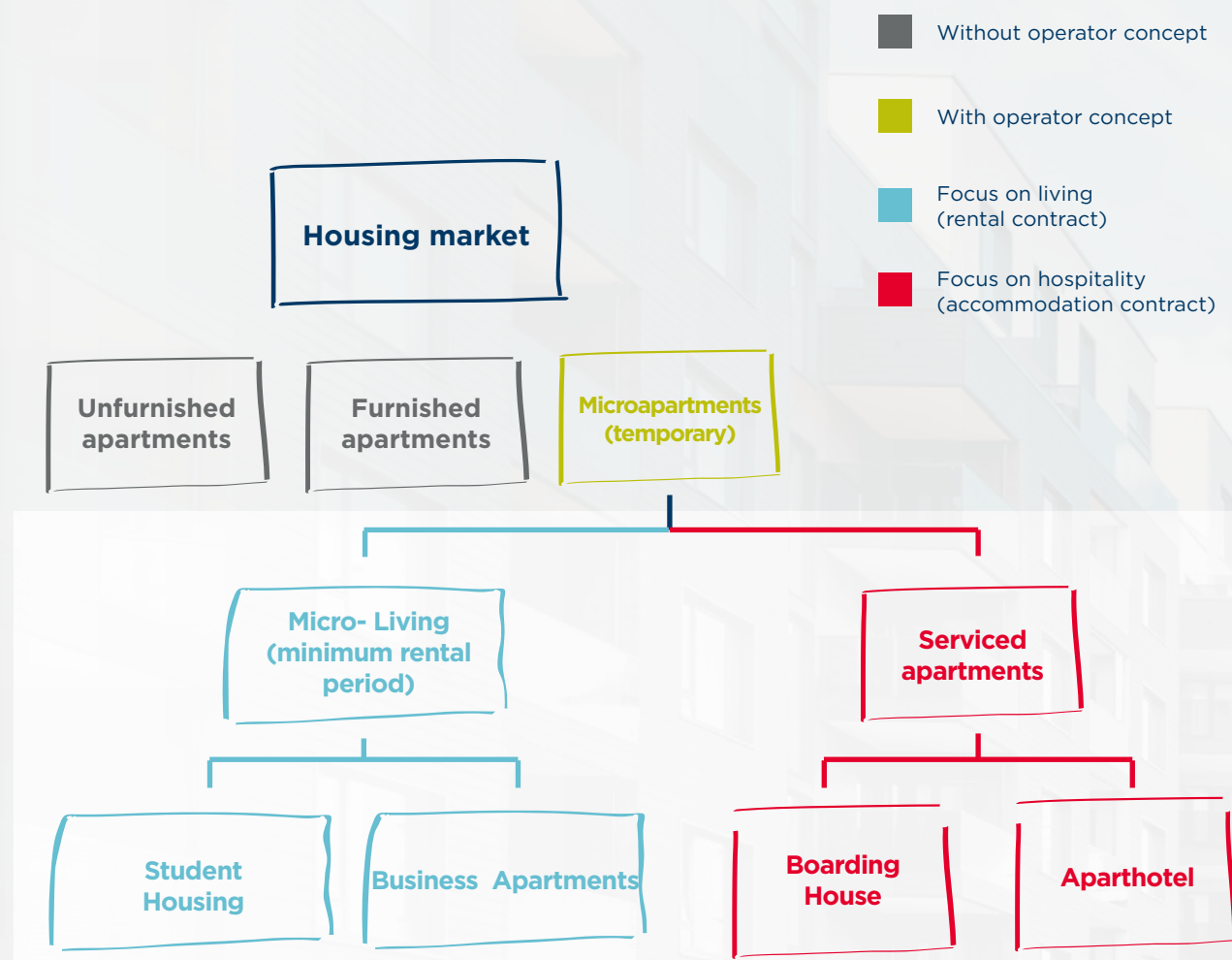
There are essentially two pillars under the umbrella of the asset class: Micro-living as a residential model and serviced apartments offered commercially.

Micro-living concepts work with a minimum rental period and, with student housing and business apartments, are often aimed at students or young professionals, but the concepts merge smoothly.

Serviced apartments are divided into boarding houses and aparthotels and offer additional services such as cleaning or laundry services. The length of stay in a boarding house is usually longer than in an aparthotel.

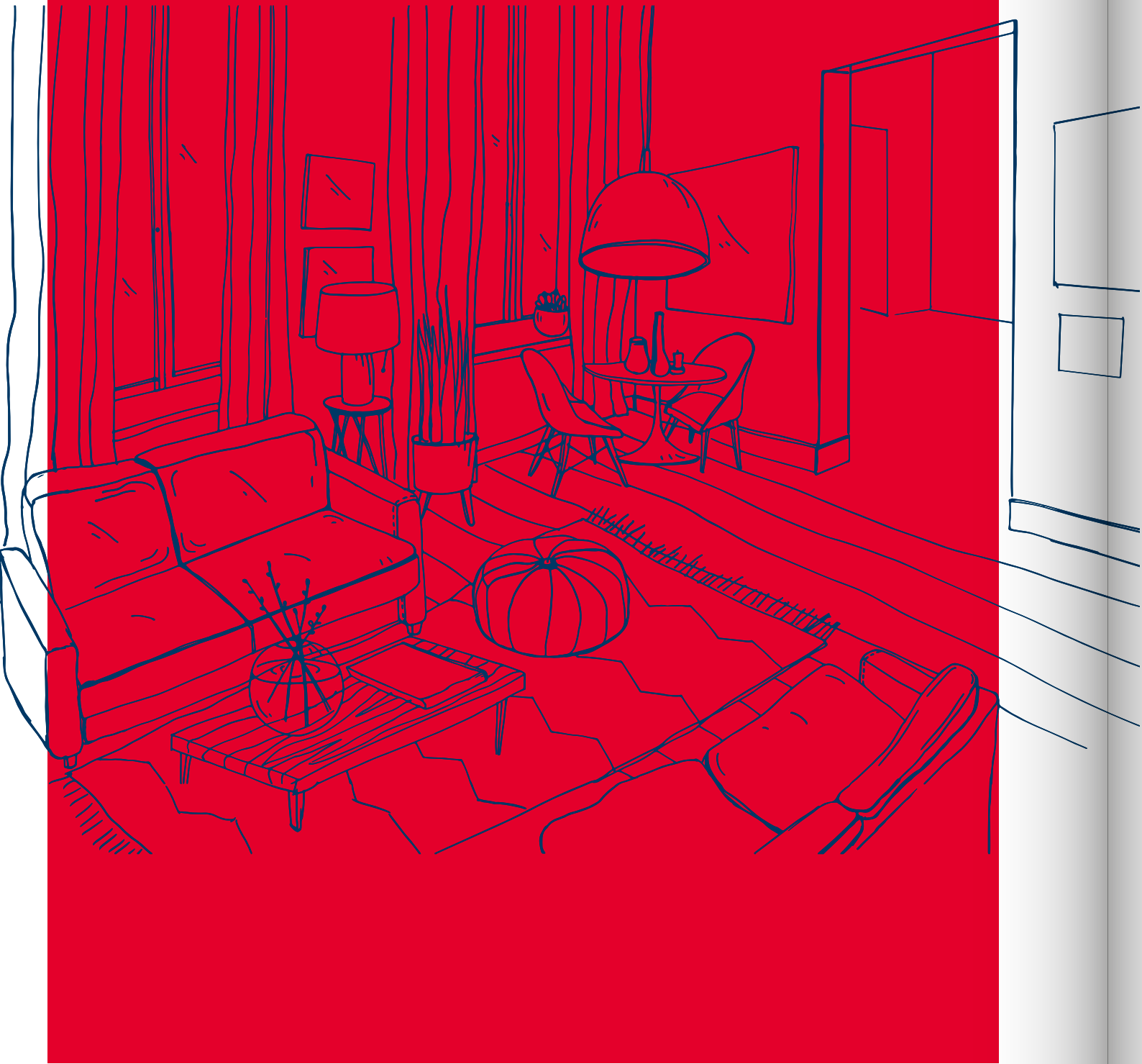


## THE MARKET FOR MICROAPARTMENTS







Hybrid models designed for both students and professionals are increasingly spreading in the market.

The concept includes services such as reception, cleaning and laundry services.



2. MODEL DIVERSITY: FROM SHORT TO LONG, BASIC TO UPSCALE

From the price-conscious student looking for a study apartment to the high-earning manager who needs upscale accommodation for a few days: microapartment concepts are aimed at different target groups and sometimes vary greatly. The boundaries between different models are fluid and hybrid forms are common.

				
TYPE	STUDENT HOUSING	BUSINESS APARTMENTS	SERVICED APARTMENTS	APART-HOTEL
SERVICE	Extra charge	Extra charge	Limited service	Full service
AMENITIES	Basic/normal	Basic/normal	Normal/upscale	upscale
MAIN TARGET SEGMENT	Students	Students	Employees	Employees
PRICE LEVEL	+	++	+++	++++
LETTING	Residential	Residential	Commercial	Commercial
LENGTH OF STAY	6+ months	6+ months	30+ nights	3+ nights

Source: Cushman & Wakefield, 2021

The average apartment size is approximately 20 to 25 square metres. Small apartments start at 15 square metres, large ones are up to 40 square metres. All concepts work with an all-in rent that includes all additional costs - such as water, electricity and internet.

In addition to the actual room, there are always areas for communal use. Depending on the target group, for example, learning and work areas, fitness rooms or shared living areas. Regarding commercial segment concepts, additional services such as room cleaning or an individual breakfast in one's own apartment can regularly be booked - this approaches a hotel-like scope of services.



# ASSET-CLASS & MARKET

## Low barriers, great potential: a highly dynamic market

The operator market for microapartments is currently highly fragmented and will become ever more professional. While the Studentenwerke (student unions) in Germany are still the largest operator of student accommodation with just under 200,000 apartments in 2020, in other European countries private operators already account for a considerable share of the market. In terms of structural quality, services, legal regulation and rent levels, however, the student halls of residence of the Studentenwerke follow a different concept - one that focuses less on facilities and services. This is a gap that continues to offer opportunities for private operators of business apartments.

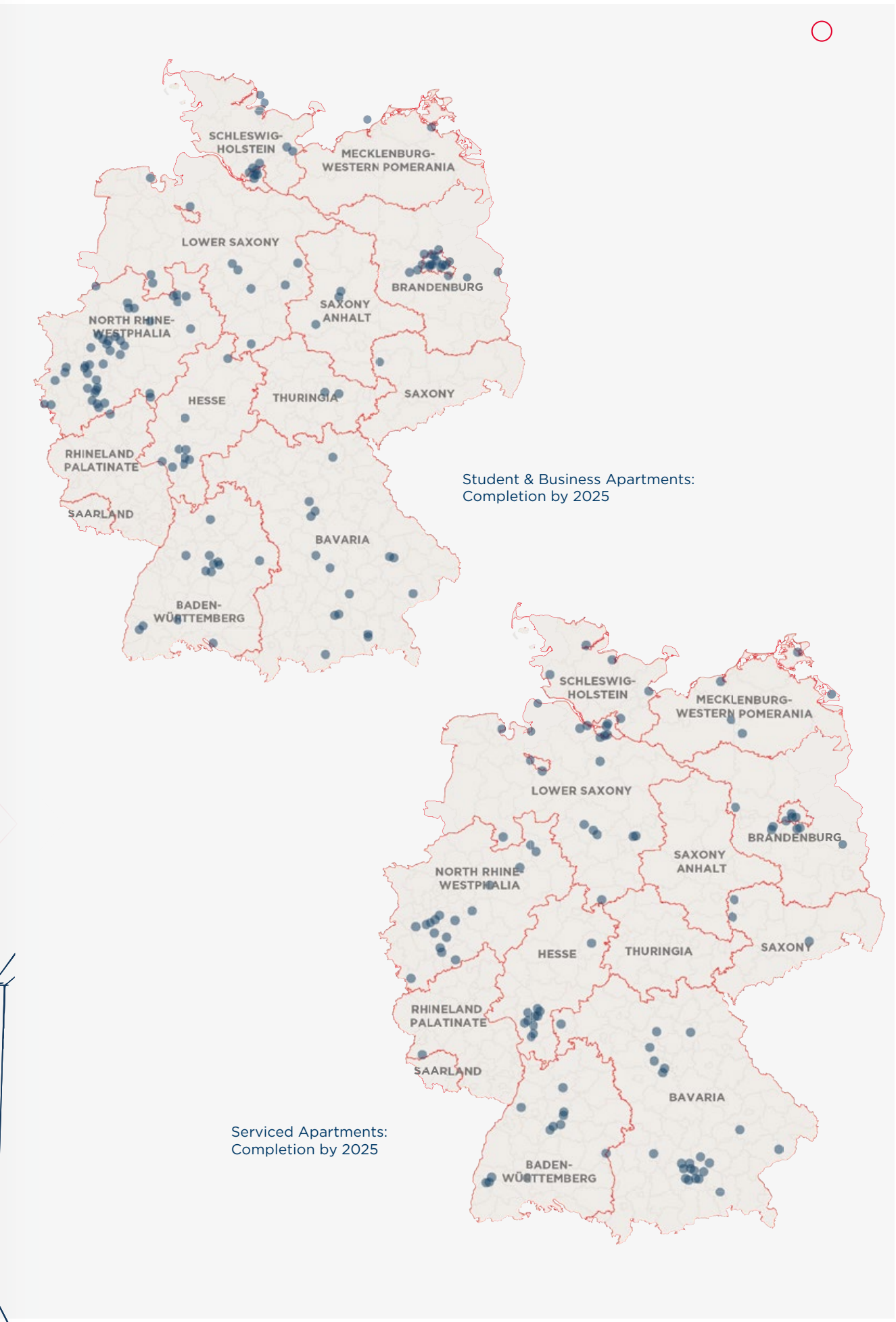
Many private operators offer a mixed model of student accommodation and apartments for

young professionals. As a result, the number of student apartments is often difficult to ascertain in isolation. There are currently about 50,000 student and business apartments offered by private operators in Germany, most of these in the top-7 cities.

Low market-entry barriers enable new operators to quickly establish themselves in the market with their brand and own concept. On the one hand, this enables a large and rapid growth of micro-living on offer. On the other hand, it could lead to increased consolidation of market participants. The project pipeline of established developers and operators of micro-living apartments underlines the great momentum in the market.

## Until 2025: Full development pipeline and increasing demand

About 500 additional developments with a total of 50,000 apartments will be completed in Germany by 2025. Most residential projects will be realised in the top-7 cities and university towns, as this is where demand from students and young professionals is highest. Some of these projects are already being realised by established private operators and developers. However, new entrants are also entering the market in some cases. The demand for micro-apartments with qualitatively appropriate operator concepts will continue to increase due to the rising student numbers.



# ASSET-CLASS & MARKET

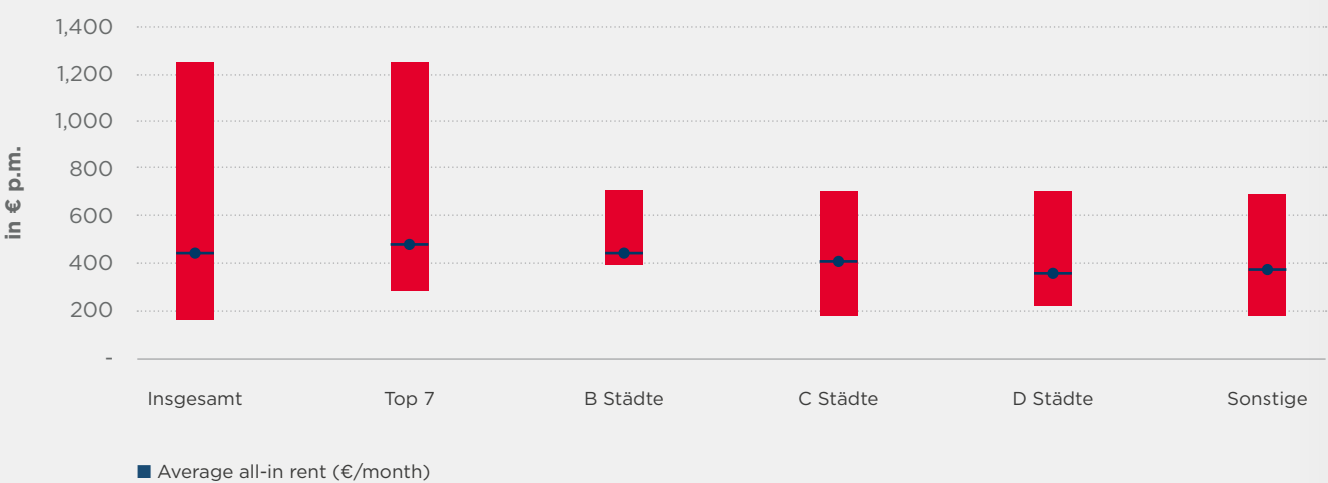
## 3. MICRO-LIVING-APARTMENTS: FULLY FURNISHED WITH ALL-IN RENT

All-in rents and fully furnished living has become the norm for micro-living apartments. This is shown by an evaluation of the micro-living market by Bulwiengesa in 2020 with over 23,000 residential units and 115 apartment buildings. The average all-in rent nationwide is around 520 euros per month - with only minor differences between the major cities. The top-7 cities show a greater heterogeneity of all-in rents for apartment buildings - with a range of asking rents from about 260 to 1,300 euros per month. The reason for this is the quality of the property and location as well as differences in the offers and tenant clientele.

>>>>

Despite the Covid 19 pandemic and universities not being able to hold face-to-face lectures, the average occupancy rate was over 90%. A good tenant mix of students and young career starters is one of the reasons. The offers of the micro-living operators also seem to be interesting to work-from-home users and promote the compatibility of life and work.

ALL-IN RENTS FOR MICRO-LIVING APARTMENTS

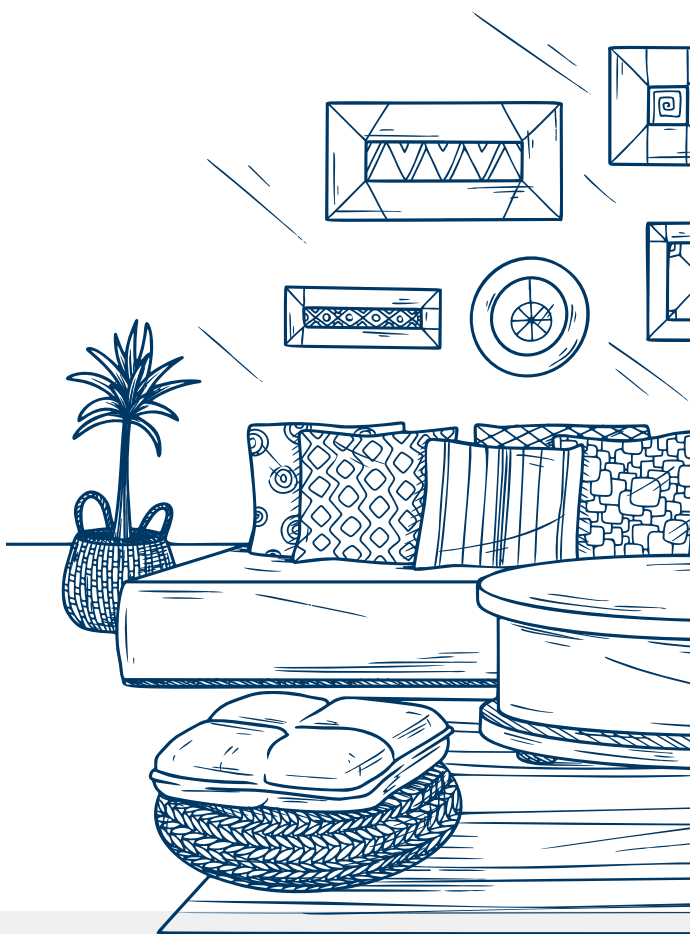


Source: Bulwiengesa 2020

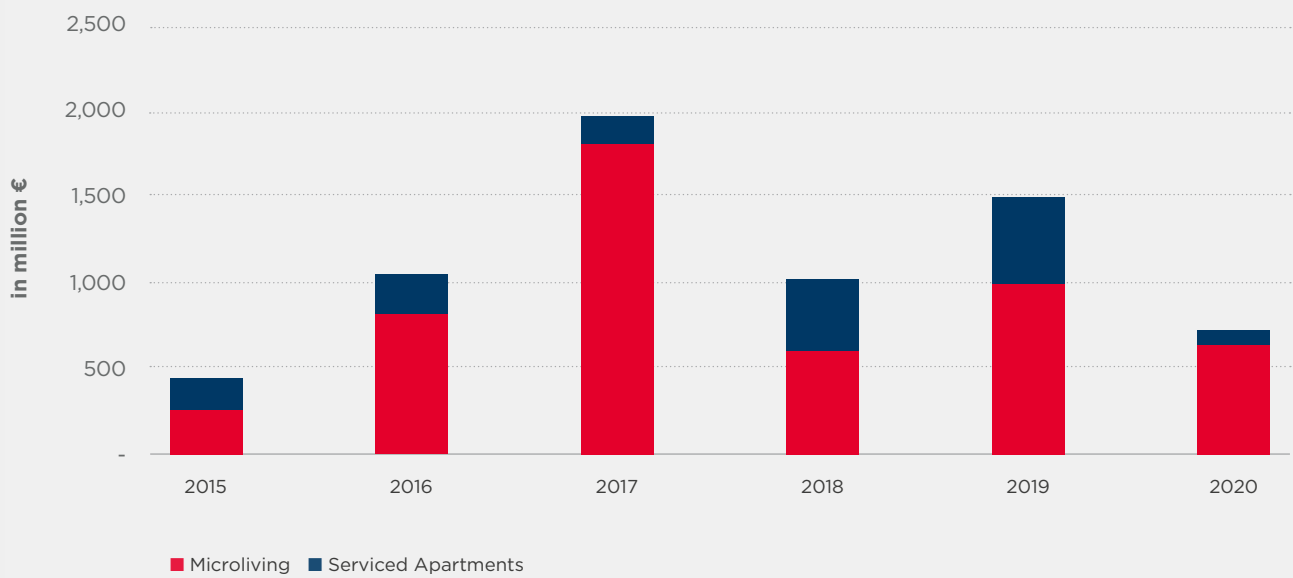
## 4. UNBROKEN INVESTMENT INTEREST: LACK OF PRODUCT SLOWS GROWTH

The investment market for micro-apartments has grown in recent years and reached a transaction volume of just under two billion euros in 2017. However, the transaction volume in the micro-living sector in 2020 of around 660 million euros was significantly below the peak of 2017. The year also saw a slump for serviced apartments and aparthotels. Besides the COVID-19 pandemic, a major reason for this was the lack of available product.

Investor interest - especially in the area of residential concepts - remains high. Especially in new construction projects with good KfW energy-efficiency standards. Due to the large micro-living pipeline of some developers and operators, an increasing transaction volume can be expected in the coming years.



DEVELOPMENT OF TRANSACTION VOLUME MICRO-LIVING AND SERVICED APARTMENTS



Source: Cushman & Wakefield, 2021



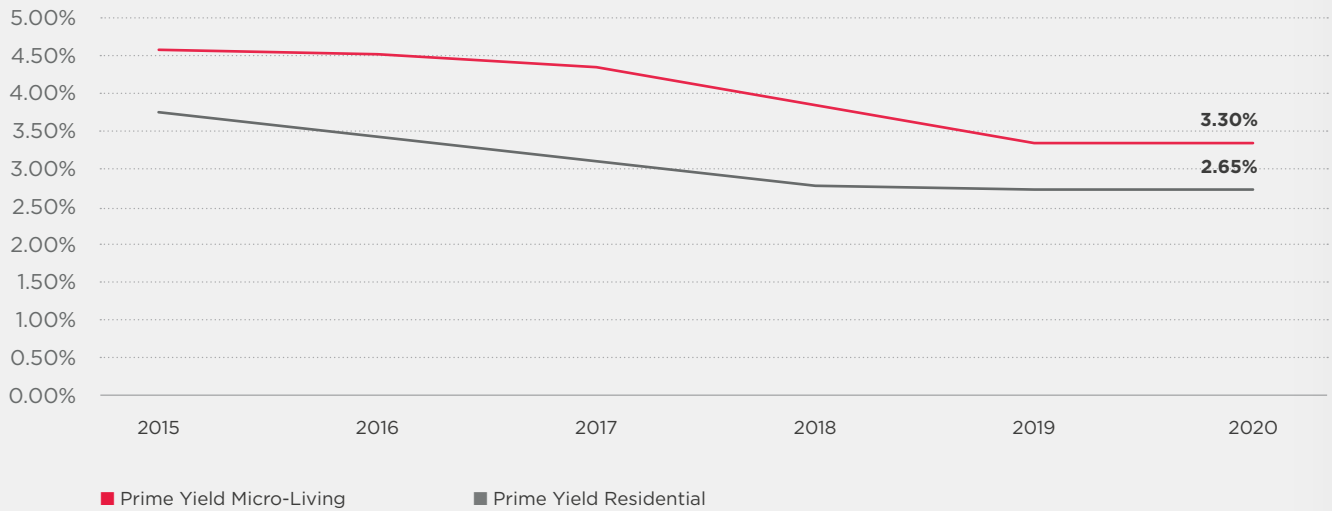
# ASSET-CLASS & MARKET

## 5. PRIME YIELDS FOR MICROAPARTMENTS REMAIN STABLE

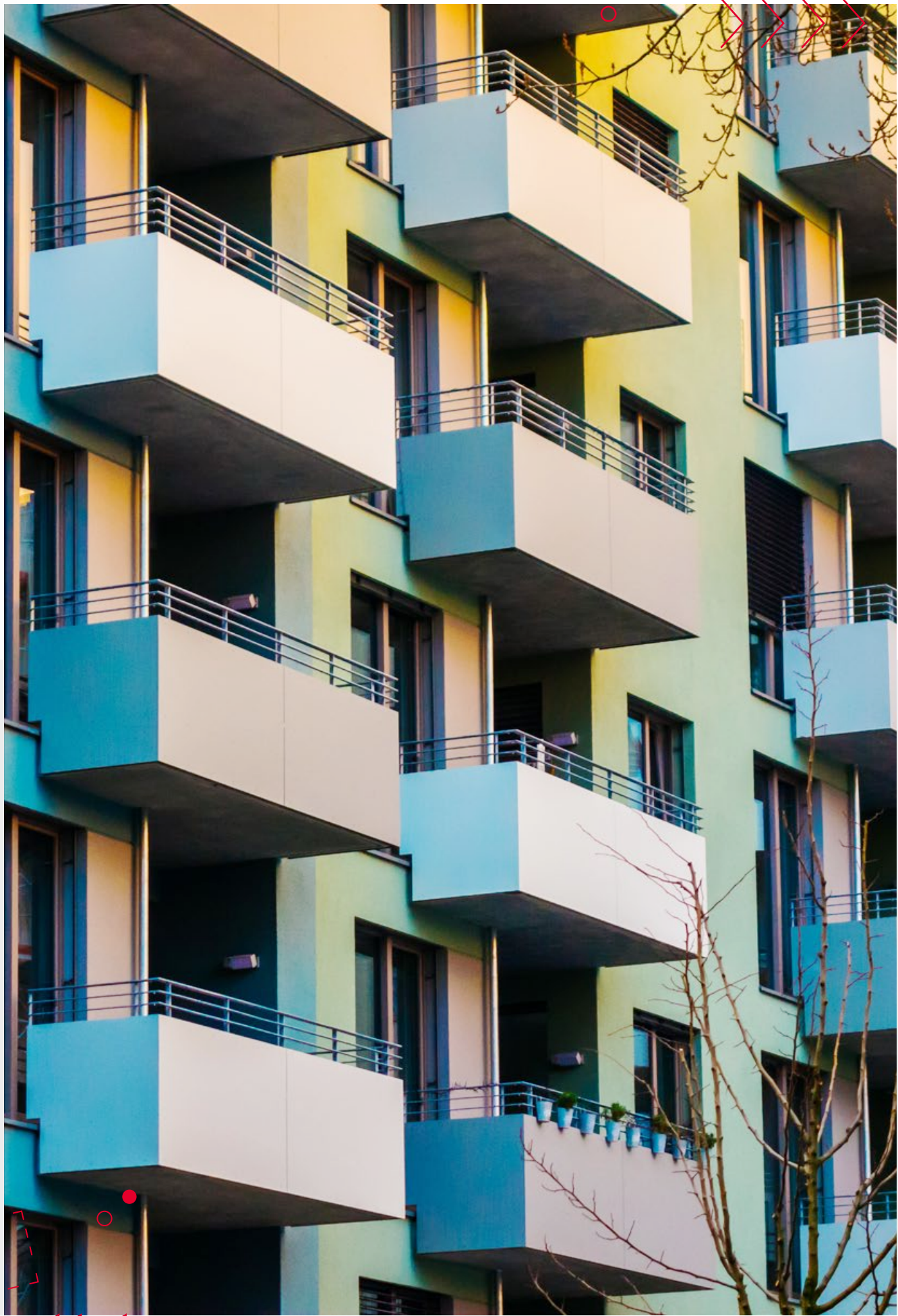
Prime yields for the overall residential market have compressed sharply in recent years as purchase prices have steadily risen. At 3.30%, yields for residential micro-apartments continue to offer a premium over traditional residential yields - but are approaching them. Certainly, the prime yield must be assessed critically due to the lower number of transactions compared to previous years, especially for the serviced apartment segment. At the same time, the market is still very young and highly attractive, favoured by current socio-economic megatrends.

Peak yields for microapartments at 3.3%

YIELD DEVELOPMENT RESIDENTIAL AND MICRO-LIVING



Source: Cushman & Wakefield Research, 2021





# SUMMARY

The market for micro-apartments will continue to grow strongly in the coming years. The increased expectations and requirements of young professionals and students call for new concepts. More single-person households, greater mobility and a changing world of work are favourable factors. The current development projects in planning and under construction form a strong pipeline and point to a clear growth course.

At the same time, the market is still very young and will continue to professionalise. The demand for affordable housing - especially in the major cities - is increasingly being discussed politically. Microapartments could make a significant contribution here and become a strong asset class for the future.

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