

REPORT 2024

MICRO APARTMENTS

AN ASSET CLASS COMES OF AGE

More professional, diversified, and in higher demand
than ever – drivers, trends and opportunities in the
German market for micro-living

With exclusive industry interviews



Better never settles



The demand for micro apartments has been higher than ever since the end of the pandemic.

JAN-BASTIAN KNOD

Head of Residential Investment Germany
Head of Healthcare Advisory

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INTRODUCTION

GERMANY HAS BEEN EXPERIENCING A SHIFT TOWARDS SMALLER HOUSING FORMS FOR YEARS

This trend is driven by demographic changes, including the influx of often younger people from abroad seeking education and employment, as well as a more mobile, service-oriented and urbanised workforce that is increasingly gravitating towards metropolitan areas. In addition, a growing proportion of older individuals, who, like students and young professionals, often live alone and are also seeking smaller apartments.

The high demand for housing in the sought-after major cities faces an extremely limited supply and an increasingly tight rental market, especially since the lifting of pandemic restrictions. Declining permits and completions exacerbate the situation further and are expected to drive rents even higher in the future. For the emerging asset class of micro-living – a sub-category of micro apartments, which is the main focus of this report – this situation creates excellent conditions that have been skillfully leveraged in recent years.

Accordingly, the market has noticeably matured since our last report in 2021 and has diversified with newly tapped target groups: For the most important demand groups – students, professionals, travellers, and seniors – subsegments such as student living, business apartments, serviced apartments, senior living, and assisted living have firmly established themselves. Many operators have significantly expanded their offerings providing a flexible range of options between housing and hospitality for different lengths of stay, needs and budgets. Consequently, the asset class is also gaining increasing attention from national and international investors, who are currently faced with a very limited supply.

What developments can be expected in the coming years, and what opportunities does the market offer? In this report, we provide a comprehensive insight into demographic trends and forecasts for Germany's housing requirements, developments in housing construction, and the latest figures from the rental and investment market. You will also find exclusive industry insights in interviews with Dr Eike Julia Muhr, Managing Director at THE FLAG, and Florian Unbehaun, Head of Transactions DACH at Commerz Real, the asset manager for real asset investments of the Commerzbank Group, as well as in the guest article by Henrik von Bothmer, Head of Operated Living at Union Investment.

We hope you enjoy reading.



JAN-BASTIAN KNOD

Head of Residential Investment Germany
Head of Healthcare Advisory

02

DEMOGRAPHICS AND DEMAND

GERMANY'S SOCIO-DEMOGRAPHIC TRENDS DRIVE THE SHIFT TOWARDS SMALL FORMS OF HOUSING

Germany's population reached a record high in 2023 – primarily due to immigration. This is particularly crucial for a stable age cohort of 18- to 39-year-olds, the most important demand group for micro-apartments. For decades, young adults have been drawn to large cities with good job and educational opportunities. The proportion of international students is also steadily increasing. Germany's major cities, in particular, are seeing a significant influx, along with a considerable increase in single-person households. The rising number of older people, who are increasingly living alone, also contributes to this trend. As a result, the demand for smaller apartments is rising, especially in major cities where the housing market is already highly constrained.

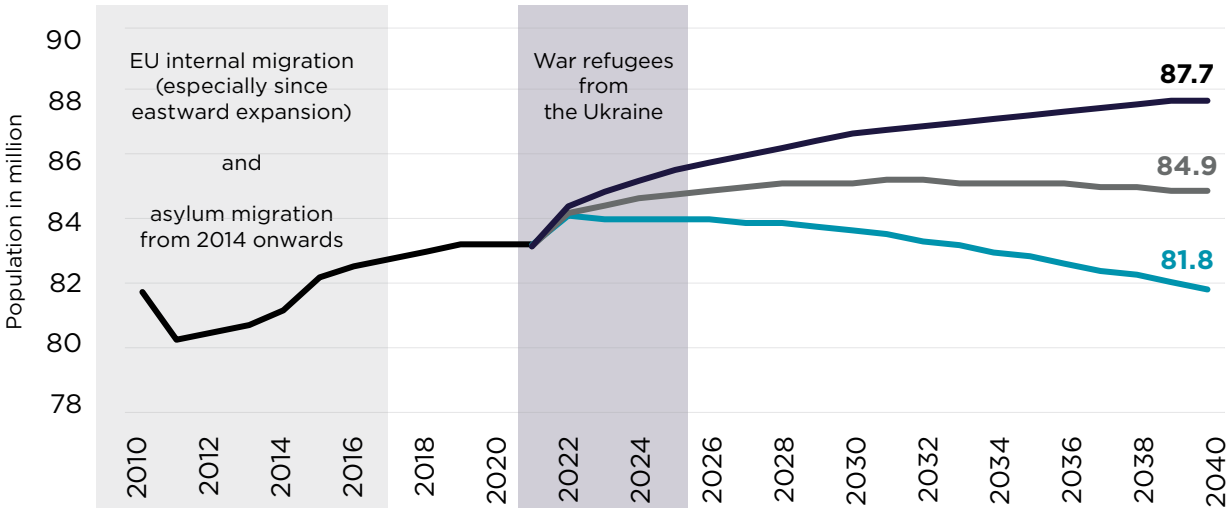
POPULATION DEVELOPMENT IN GERMANY

GERMANY GROWS THROUGH IMMIGRATION

In 2023, Germany's population reached an all-time high of around 84.7 million people. The driving force behind this growth is immigration, most recently in particular due war refugees from Ukraine and ongoing high migration from the Middle East and Asia. Historically, Germany has also repeatedly experienced periods of significant migration waves, such as during the EU's eastward expansion and the subsequent full labor mobility from 2011, as well as phases of moderate to low immigration.

However, forecasts for future migration trends are uncertain. The Federal Statistical Office, in its 15th coordinated population projection up to 2040, considers three scenarios – one with low, one with moderate, and one with high net immigration. The difference between the highest and lowest immigration scenarios amounts to nearly six million inhabitants. Without immigration or with only low immigration, Germany's population would shrink according to the calculations.

POPULATION GROWTH AND WAVES OF IMMIGRATION: DEVELOPMENT AND FORECAST



- High immigration*: Decline from approximately 1.5 million immigrants in 2022 to 750,000 in 2023, with a continuous decline until 2033 to 350,000 immigrants annually; thereafter, a constant 350,000 immigrants per year.
- Moderate immigration*: Decline from approximately 1.3 million immigrants in 2022 to 513,000 in 2023, with a continuous decline until 2033 to 250,000 immigrants annually; thereafter, a constant 250,000 immigrants per year.
- Low immigration*: Decline from approximately 1.1 million immigrants in 2022 to 275,000 in 2023 with a continuous decline until 2033 to 150,000 immigrants annually; thereafter, a constant 150,000 immigrants per year.

*Natural population balance with moderate life expectancy

Source: Federal Statistical Office (Destatis), Cushman & Wakefield, 2024



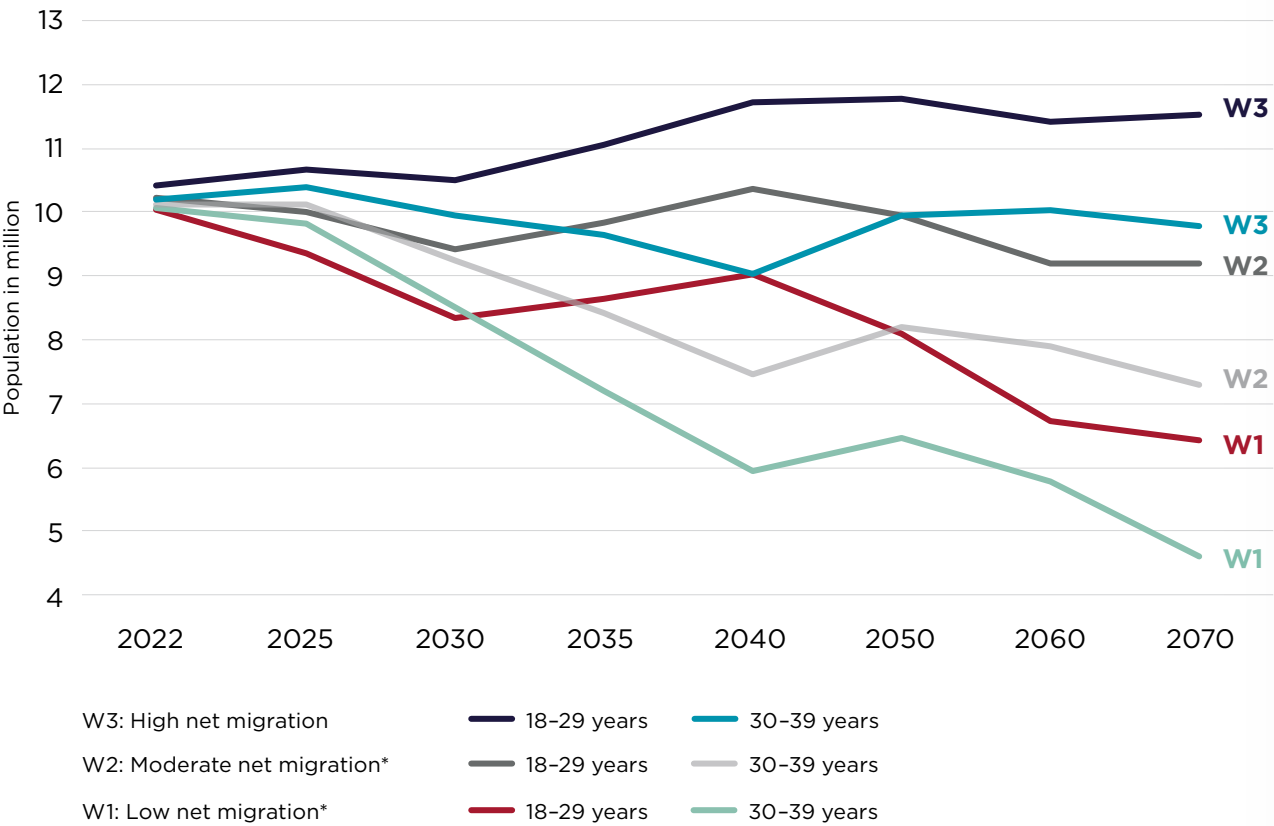
TARGET GROUP IN FOCUS

STUDENTS AND YOUNG PROFESSIONALS

THE DEVELOPMENT OF THE 18 TO 39 AGE GROUP DEPENDS HEAVILY ON IMMIGRATION

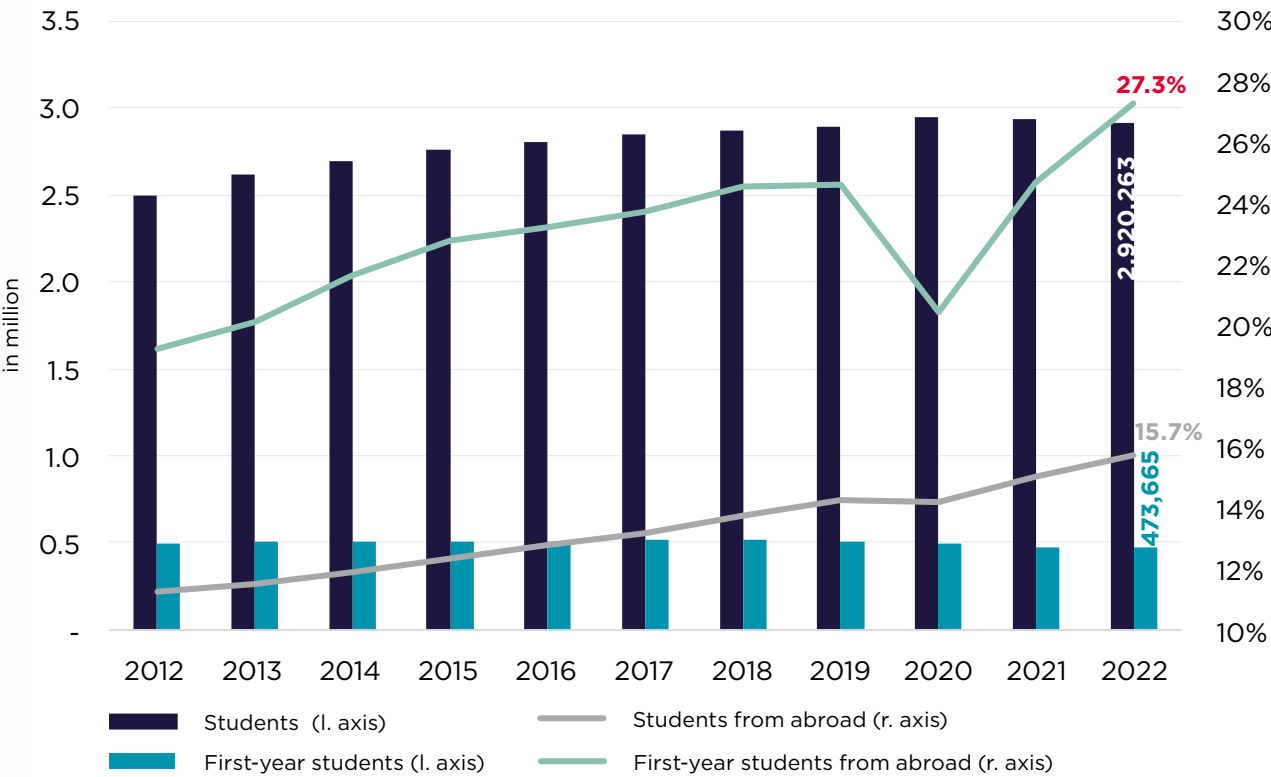
The growth of the age groups 18 to 29 and 30 to 39 is even more reliant on immigration than the overall population. These age groups, which together represent the largest demand segment for micro apartments, are particularly mobile due to educational and employment opportunities. Refugee migration also predominantly consists of these age groups. Without high levels of immigration, these age groups would significantly shrink due to decades of low birth rates. Only with a high positive migration balance is the 30 to 39 age cohort expected to remain stable, while the 18 to 29 age cohort is expected to grow slightly.

DEVELOPMENT FORECASTS FOR THE AGE COHORTS 18-29 AND 30-39 BY NET MIGRATION



Source: Federal Statistical Office (Destatis), Cushman & Wakefield, 2024

STUDENTS AND FIRST-YEAR STUDENTS IN GERMANY



Source: Federal Statistical Office (Destatis), Cushman & Wakefield, 2024

GERMANY IS A TOP DESTINATION FOR INTERNATIONAL STUDENTS

According to a report on the internationalisation of study and research by the German Academic Exchange Service (DAAD) and the German Centre for Higher Education Research and Science Studies (DZGW) from Q3/Q4 2023, Germany ranks third among the most popular study destinations worldwide.¹ Migration, therefore, plays an important role in student numbers. From 2012 to 2022, the total number of students increased by approximately 16.8 percent, from around 2.49 million to around 2.92 million, with international students coming to Germany for their studies driving this growth significantly: While their share was 11.3 percent in 2012, it had risen to 15.7 percent in 2022. The proportion of international first-year students has increased even more dramatically – from 19.3 percent in 2012 to 27.3 percent in 2022 – while the total number of first-year students declined by 4 percent over the same period. The only exception to this trend was seen in the pandemic year 2020.

¹ German Student Union; Internationalisation in figures



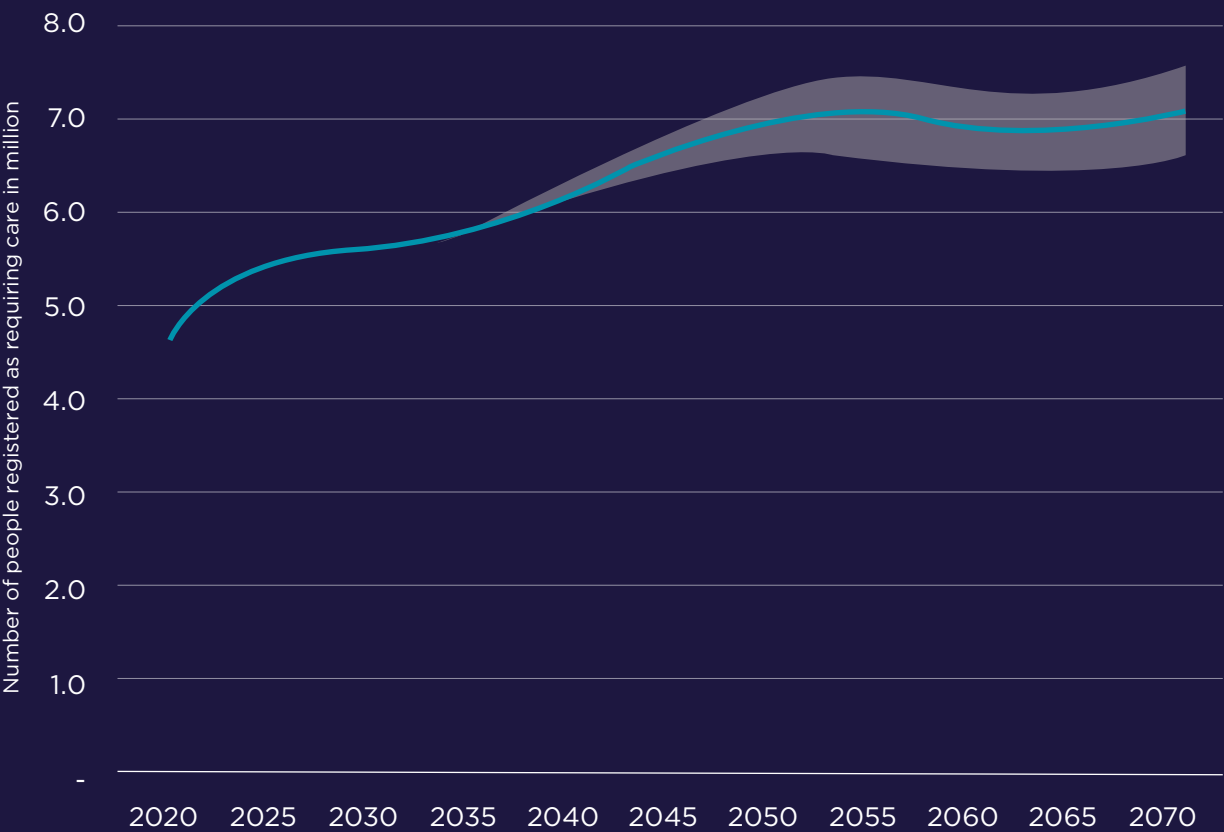
NEW TARGET GROUPS

SENIOR LIVING IS BECOMING INCREASINGLY RELEVANT

GERMANY’S POPULATION IS AGEING AND LIVING LONGER

The demographic shift has been altering the age structure in Germany for many years: the number of younger citizens is generally decreasing, while the number of those over 70 is particularly increasing. The ageing population leads to a steadily growing demand for care services and care facilities. The approximately 15,400 outpatient care services and 16,115 care homes (as of 2021) cannot meet this demand. Assuming constant care prevalence from 2025 onwards, the number of people in need of care will continue to rise – to between 5.65 million and 5.75 million by 2030, and to between 6.61 million and 7.25 million by 2050.

NUMBER OF PEOPLE IN NEED OF CARE IN GERMANY: DEVELOPMENT AND FORECAST



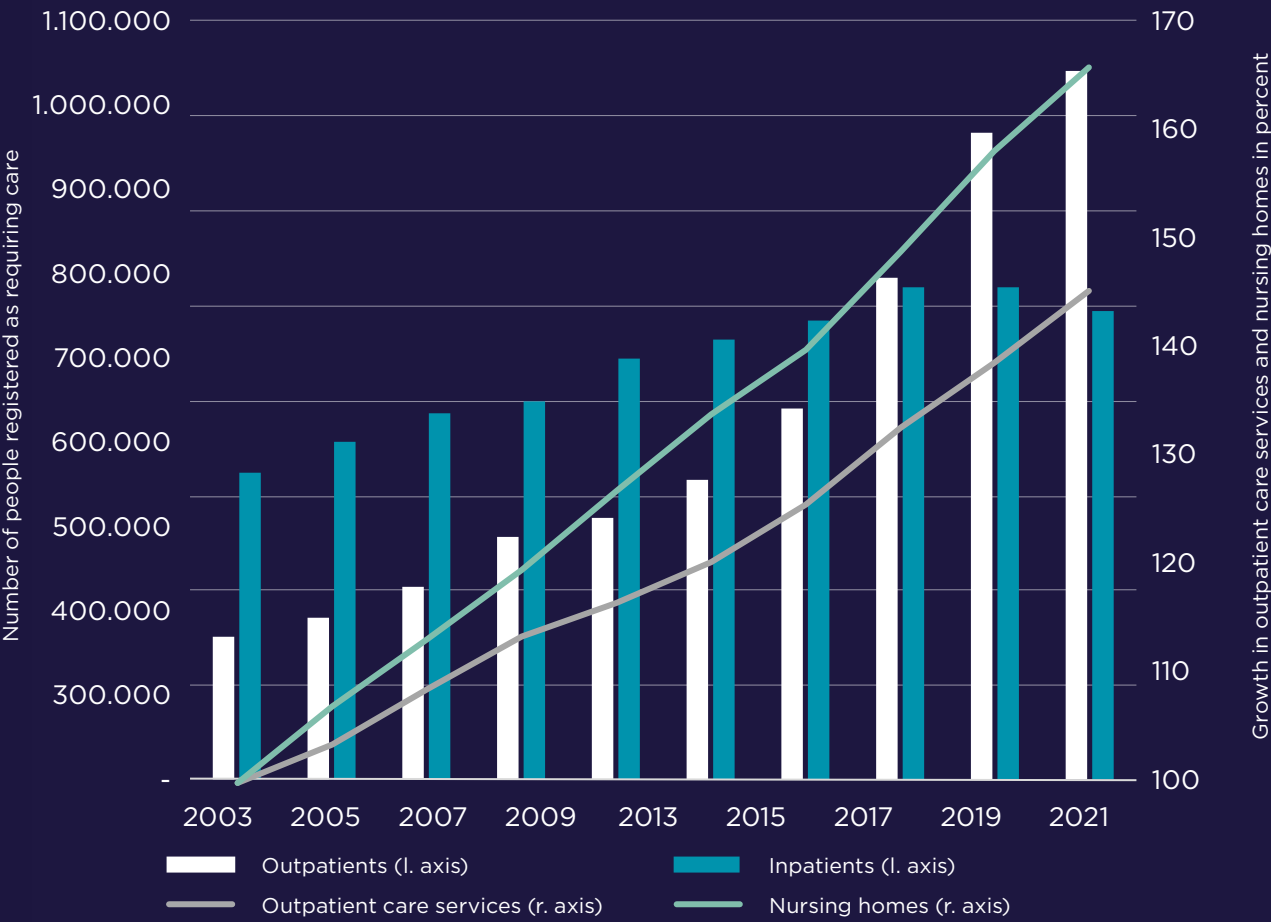
Source: Federal Institute for Population Research, Cushman & Wakefield, 2023

THE SUPPLY OF CARE SERVICES IS GROWING - BUT REMAINS BEHIND THE DEMAND

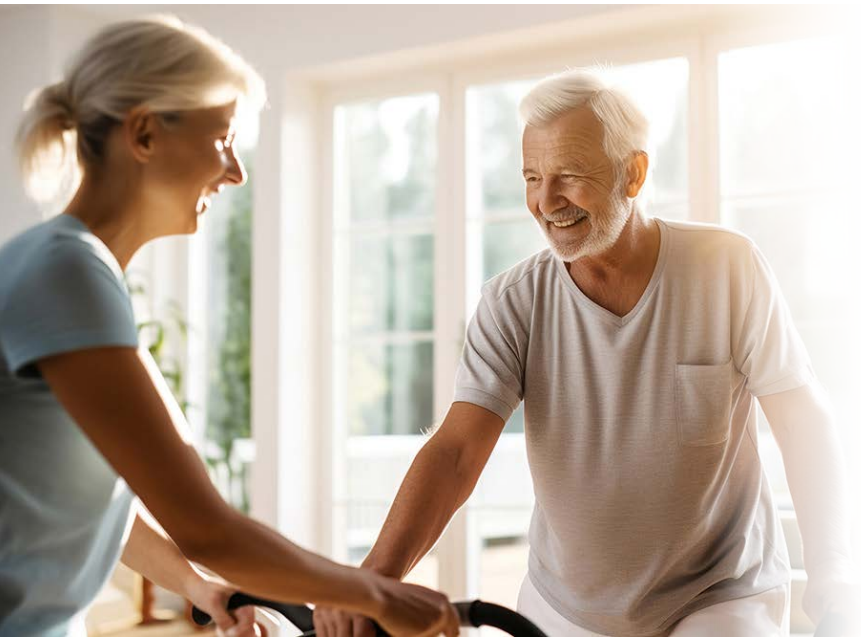
As the population ages, the number of people in need of care also increases. This leads to a growing demand for outpatient care services and residential nursing home placements, which is expected to continue rising in the coming years. In response to this increasing demand, the number of care services and care homes grew by 15 percent and 19 percent respectively between 2015 and 2021. Nevertheless, a shortage in care services is already clearly noticeable in Germany, and this shortage is expected to worsen in the future.



DEVELOPMENT OF PEOPLE IN NEED OF CARE AND GROWTH OF FACILITIES BY TYPE OF CARE SERVICE



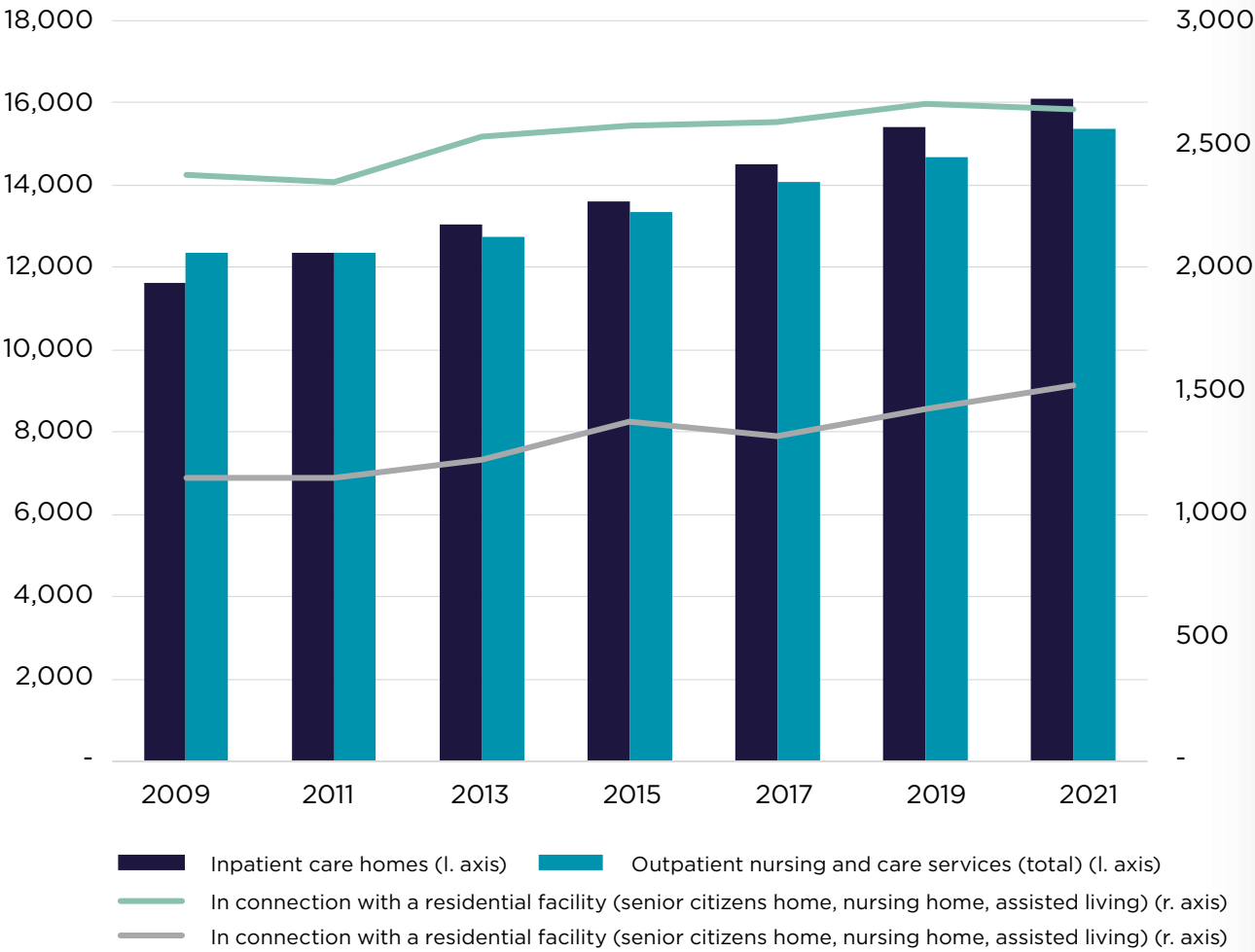
Source: Federal Statistical Office (Destatis), Cushman & Wakefield, 2024



The supply of assisted living facilities is also unable to keep up with demand. Although the number of care homes with associated living units increased by 11 percent between 2009 and 2021, and the number of standalone care services in a residential facility increased by 32 percent, there was still a service gap in the area of assisted living in 95 percent of all communities in 2021. This gap is expected to widen further in the coming years as the number of seniors and people in need of care continues to grow.



OUTPATIENT CARE SERVICES IN SENIOR RESIDENCES (ASSISTED LIVING) BEFORE NURSING HOMES



Source: Federal Statistical Office (Destatis), Cushman & Wakefield, 2024

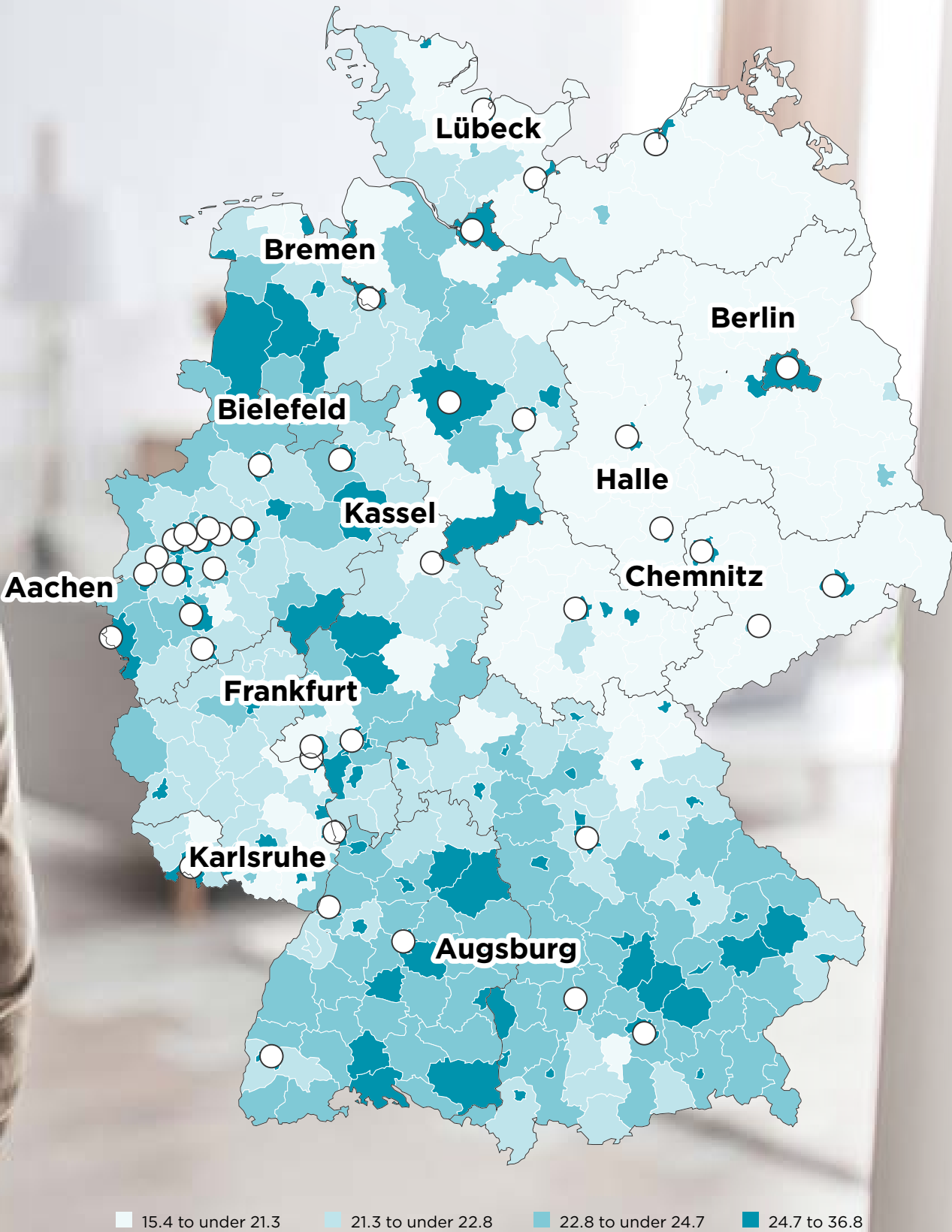
INTERNAL MIGRATION WHERE DO YOUNG PEOPLE MOVE TO?

HOT SPOTS FOR 20- TO 39-YEAR-OLDS: LARGE CITIES AND UNIVERSITY TOWNS

Western German cities and university towns are the most desirable regions for young people in Germany. In southern Germany, in particular, the proportion of 20- to 39-year-olds is almost consistently high, while it is particularly low in the rural districts of eastern Germany. Factors such as educational and job opportunities, economic strength, and cultural aspects play a significant role in the attractiveness of these areas for students and young professionals.



SHARE OF THE POPULATION AGED 20 TO 39
BY DISTRICTS AND INDEPENDENT CITIES IN PERCENT, 2022



Source: GeoBasis-DE / BKG 2023, Population projections, Federal Statistical Office (Destatis), 2023



METROPOLISES ARE BOOMING

GERMANY’S TOP 7 CITIES EXPERIENCE RECORD INFLUXES

The attractiveness of a city is also reflected in its migration balance. This balance represents the difference between all arrivals and departures and indicates the impact of migration on the population growth of a city. In the following years, this trend noticeably weakened, possibly due to rising housing costs and a lack of available properties. In 2020, the balances were widely negative again for the first time – likely driven by the onset of the Covid-19 pandemic: lockdowns, compulsory home office and the indefinite suspension of in-person university classes made city life less attractive. This trend further intensified again in 2021, with the exception of Berlin, which recorded a positive balance of +16,200 residents. A reversal of this trend occurred in 2022, with a positive record positive balance of around 177,000 residents in the top 7 cities, primarily due to the large number of war refugees from Ukraine, as well as the lifting of pandemic restrictions.

MIGRATION BALANCES OF THE TOP 7 CITIES

	BERLIN	HAMBURG	MUNICH	COLOGNE	FRANKFURT	STUTTGART	DUSSELDORF
2012	41,324	15,011	18,725	9,062	8,648	6,194	4,007
2013	41,892	11,959	14,080	8,479	10,439	5,542	4,431
2014	37,113	13,376	15,689	9,024	12,675	6,947	4,721
2015	41,085	19,998	14,590	10,743	12,047	10,319	6,842
2016	54,148	20,201	8,312	13,184	480	2,938	523
2017	33,533	18,009	-12,588	1,560	6,724	3,459	3,750
2018	29,435	7,979	8,117	4,212	2,949	1,134	1,214
2019	23,231	5,003	8,602	486	6,731	-113	1,938
2020	-1,958	4,057	-2,870	-4,685	-2,319	-6,256	-1,525
2021	16,241	-70	-6,305	-9,450	-7,407	-4,944	-1,046
2022	76,000	39,428	21,025	11,943	11,837	6,919	10,320

Source: Bulwiengesa, Cushman & Wakefield, 2024

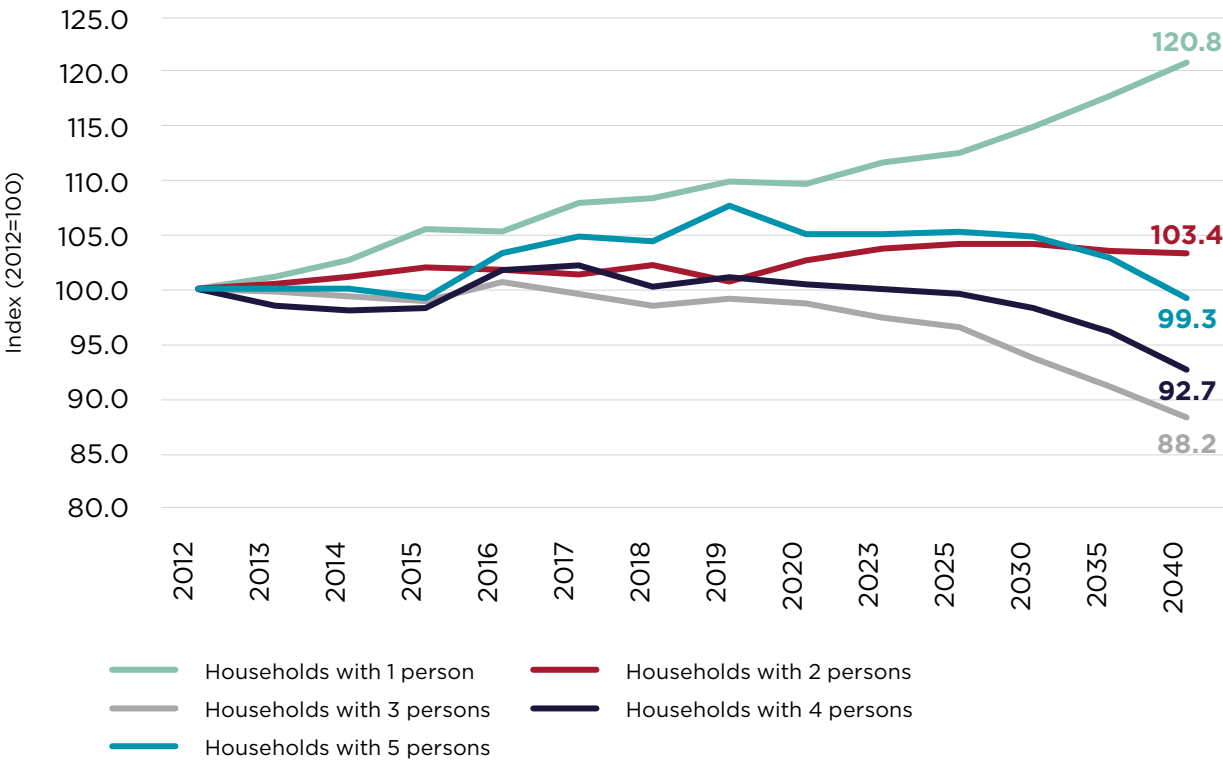
HOUSEHOLD STRUCTURE

GERMANY'S HOUSEHOLDS ARE GETTING SMALLER

THE NUMBER OF SINGLE-PERSON HOUSEHOLDS IS INCREASING DRAMATICALLY ACROSS GERMANY

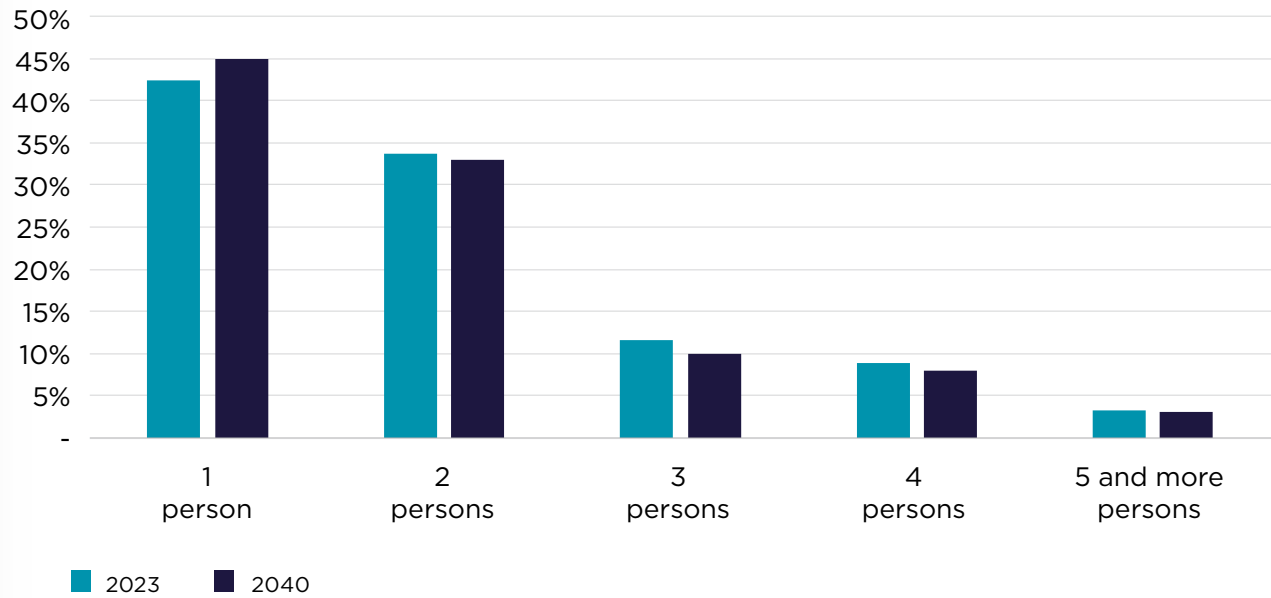
Population growth coupled with a trend towards smaller households results in an overall increase in the number of households. In 2021, the average household size was about 1.94 persons, and it is expected to decrease to 1.89 persons by 2035. Specifically, the proportion of single-person and two-person households is increasing, while larger households are becoming less common. Single-person households are the only category whose numbers have been consistently rising since 2012 and are expected to reach 19.3 million by 2040 – constituting about 45 percent of the approximately 42.6 million households in total. Two-person and five-person households are expected to remain relatively stable, while a significant decline is anticipated for three-person and four-person households.

DEVELOPMENT AND FORECAST*: NUMBER OF HOUSEHOLDS BY PERSON 2012 TO 2040



*Forecast based on the results of the 14th coordinated population projection (variant 2).

SHARE OF HOUSEHOLDS BY PERSONS: 2023 AND FORECAST FOR 2040

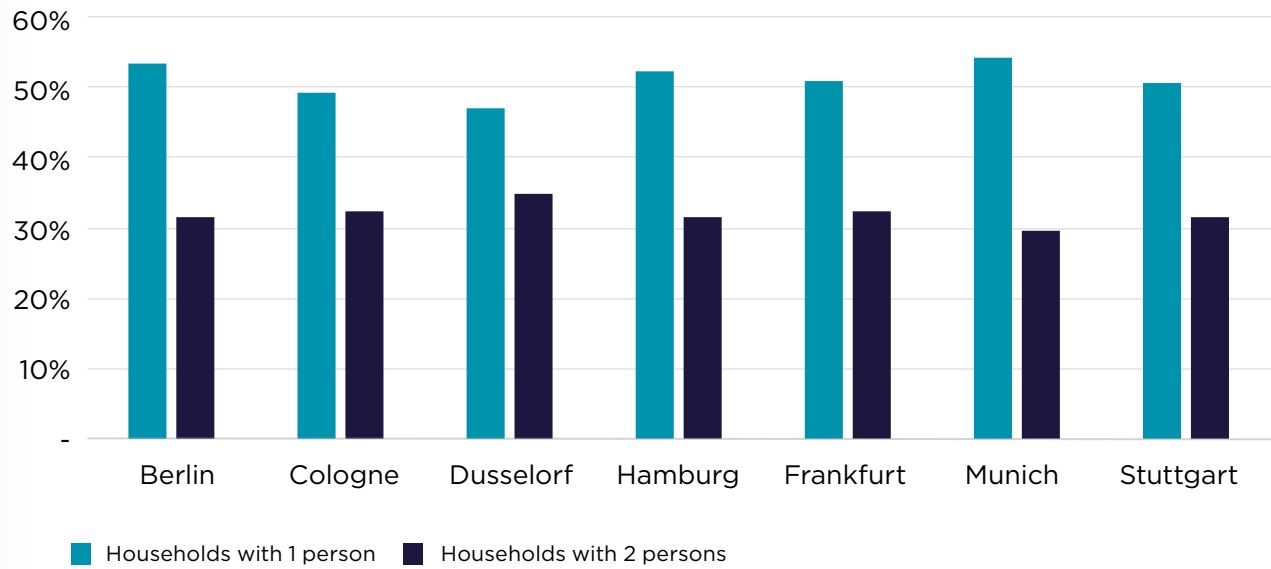


Source: Federal Statistical Office (Destatis), Cushman & Wakefield, 2024

A-CITIES HAVE THE SMALLEST HOUSEHOLDS - EXPECTED TO LAST

As migration balances suggest, household sizes also vary by region: households in A-cities are nearly 0.15 persons smaller than those in D-cities. With 54 and 53 percent, Munich and Berlin are the top 7 cities with the highest proportion of single-person households. The average household size is also decreasing in B-, C-, and D-cities. Consequently, a shift in planning new residential projects with a greater focus on smaller living units is warranted.

COMPARISON OF PRIVATE HOUSEHOLD STRUCTURE TOP 7 CITIES 2022

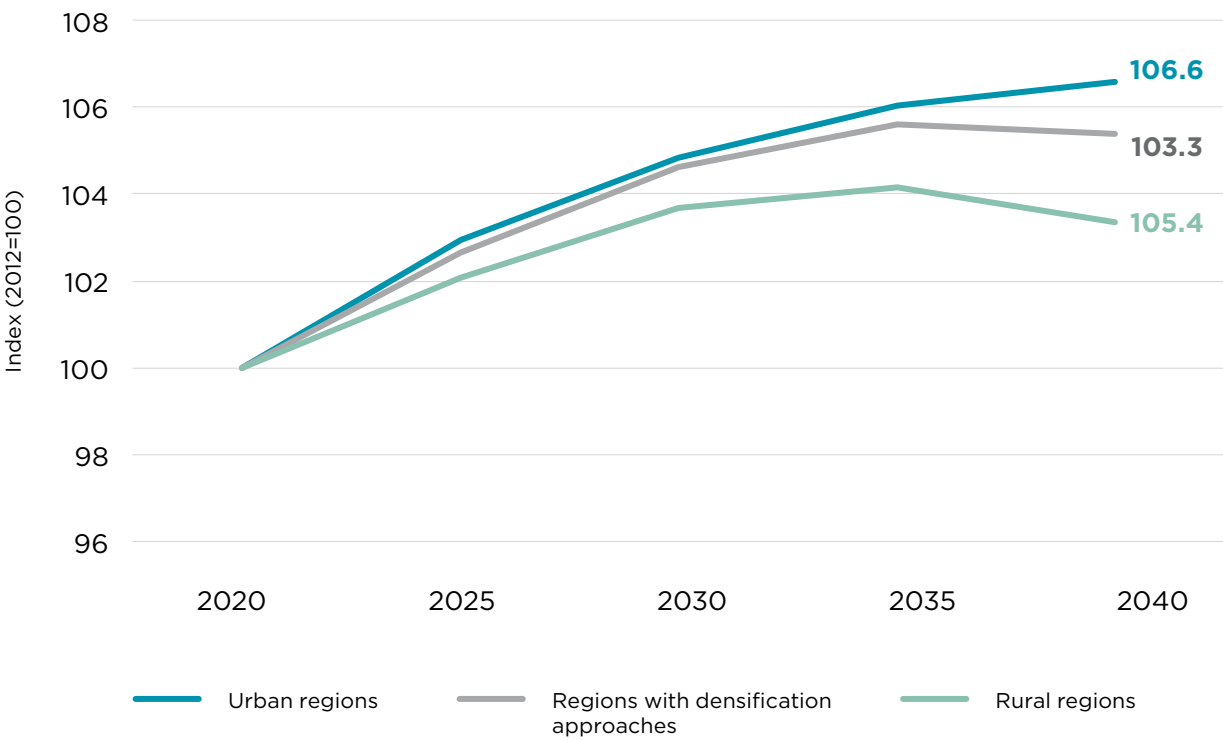




THE NUMBER OF SINGLE HOUSEHOLDS IS RISING, ESPECIALLY IN URBAN AREAS

According to the 2040 household forecast by the Federal Institute for Research on Building, Urban Affairs and Spatial Development, the number of single households in urban regions is expected to increase at an above-average rate – an increase of 6.4 percent is projected between 2020 and 2040. However, there are significant differences: While an increase of 12.8 percent is predicted for the Munich regional planning region, the figure for the Bremen region is only 1.2 percent. This trend is driven by a housing shortage with high housing costs, young people moving to these areas, and a growing number of seniors who often live alone again after the death of a partner. Changing societal values are also contributing to a greater focus on individual living arrangements.

DEVELOPMENT AND FORECAST FOR SINGLE HOUSEHOLDS BY REGION TYPE



Source: Federal Institute for Research on Building, Urban Affairs and Spatial Development, Cushman & Wakefield, 2024

OPPORTUNITIES FOR MICRO-LIVING

Demographic forecasts all point to the growing significance of the micro-living asset class, particularly in German major cities and university towns: the demand from students and young professionals is expected to continue increasing. This is especially relevant given the rising number of international students and professionals who are looking for suitable housing for a short- to medium-term period of three to five years. In major cities, such housing is already scarce and has become noticeably more expensive in recent years. Micro apartments thus cater to an expanding target group, particularly in Germany's major cities, making them an appealing investment opportunity for capital investors.



SUPPLY SHORTAGE AHEAD

A guest article by Henrik von Bothmer,
Union Investment

DEAR APARTMENT COMMUNITY AND INTERESTED PARTIES,

We are taking a look into the future of flat concepts and analysing where things are heading. But first, where did we come from and where do we currently stand?

The years of the COVID-19 pandemic have been exciting (both positively and negatively) but also enlightening for the still relatively young asset class of apartment concepts. The challenges have been largely overcome, and the sector is now stronger than ever. It has been shown, among other things, that the volatility of the occupancy rates for different concepts correlates with the average length of stay of the users. For example, occupancy rates in accommodation facilities declined more quickly than in residential flat concepts. However, these residential concepts, due to various factors such as the suspension of in-person university classes, were not able to achieve the high occupancy stability of the traditional rental market.

A steady increase in the number of completed and opened flat concepts over the past few years has also led to more operational experience. On the one hand, it has been observed that a shorter length of stay generally entails higher costs for leasing and management, and that a significant specialised know-how is required for the operational success of a flat concept

in order to meet user-specific needs. On the other hand, shorter stays offer greater flexibility. Adapting to changing market developments can occur much more quickly than with a longer-term contract. These insights are reflected in the evaluation of the respective concepts and influence pricing.

Overall, the industry has become more insightful, experienced and professional. It stands on a solid foundation. Occupancy rates are high and rental price trends are positive. The focus now is on preparing for future growth and further professionalisation. Processes and cost structures need to be analysed and optimised. That covers the current situation, so now let's look ahead.

User demand is very high and will continue to drive the segment in the future

Increasing job mobility, the growing trend towards urbanisation, the ongoing individualisation of society, and the ever-spreading of digitalisation are all contributing to high demand and good occupancy rates for various flat concepts. These social megatrends are unlikely to lose relevance and will likely intensify, further fueling demand for flat concepts.



“

*The industry
is on a solid
foundation.*

HENRIK VON BOTHMER

Head of Operated Living
Union Investment

Whether due to the start of training or studies, a study-related stay abroad, an internship or new job, or a temporary project-based assignment in a new location, various flat concepts meet the desire for maximum flexibility on the part of users with very low-threshold (digital and multilingual) booking options, time-limited and a 'plug-and-play' mindset. This is reflected in the availability of concept variants ranging from partially furnished to fully equipped, and ready to move in.

In addition to the education and career-driven demand for various flat concepts, there is also a significant and predictably growing need for attractive and flexible living concepts in the senior housing segment. The demographic megatrend of an aging population will inevitably lead to a steady increase in demand in the coming years and decades.

From a real estate perspective, supply shortage is the limiting factor

High occupancy rates and rising rental prices indicate that current demand cannot be met by the existing supply. The reluctance to undertake new construction projects due to rising interest rates – observed across different types of uses – will result in only limited additional supply, at least in the short to medium term.

Strong demand and limited supply inevitably leads to a demand surplus

An unmet demand combined with continuously increasing demand on one side and stagnating supply on the other hand will undoubtedly lead to a supply shortage or demand surplus. Those affected will be users who are unable to meet their needs with specific flat offerings and may have to resort to the traditional housing or hotel market. Anything in short supply tends to increase in price. Accordingly, rental and accommodation prices will rise.

Even though the budgets of companies and private individuals are not infinitely stretchable, these price increases, combined with an expected interest rate cut on one hand and declining land and construction costs on the other, could contribute to a further expansion of supply in the medium term. This is because the developing, building and operating flat concepts will once again become economically viable. Given the very positive demand environment for this segment, it is likely that apartment concepts will be one of the first asset classes in the real market to recover and see renewed growth.





ABOUT HENRIK VON BOTHMER

Henrik von Bothmer has over 20 years of professional experience in the real estate industry. He has been with Union Investment for more than ten years, where he serves as Head of Operated Living, overseeing investment management in the apartment concepts sector. As a qualified real estate agent with a degree in business law graduate specialising in financial services, his professional background spans both the real estate and capital markets. With this combination, von Bothmer has been successfully investing in various flat concepts for around seven years and is considered one of the most experienced investors in this asset class.



ABOUT UNION INVESTMENT

Union Investment has stood for reliability, sustainability and consistent focus on quality in asset and investment management for more than 55 years. With approximately 57 billion euros in assets under management across open-ended property funds, special funds, as well as service and pooling mandates, Union Investment is one of the largest providers of real estate solutions for private and institutional investors in Europe. The company invests in office, retail, hospitality, logistics and residential sectors, and holds around 500 properties in 25 countries worldwide in its portfolio.



03

HOUSING CONSTRUCTION IN GERMANY

THE RELEVANCE OF MICRO APARTMENTS IS GROWING – ESPECIALLY IN MAJOR CITIES

Germany's demographic trends are reflected in housing construction. To meet the growing demand for smaller living spaces, an above-average number of one- to two-room flats have been approved and completed in recent years, particularly in the A-cities. The construction pipeline for micro apartments is also well-stocked, especially in urban metropolitan areas and major cities, including university towns, with Berlin standing out in particular. It is noticeable that projects with more housing units are increasingly being realised, and in addition to traditional student apartments, there is a growing trend towards business apartments as well.

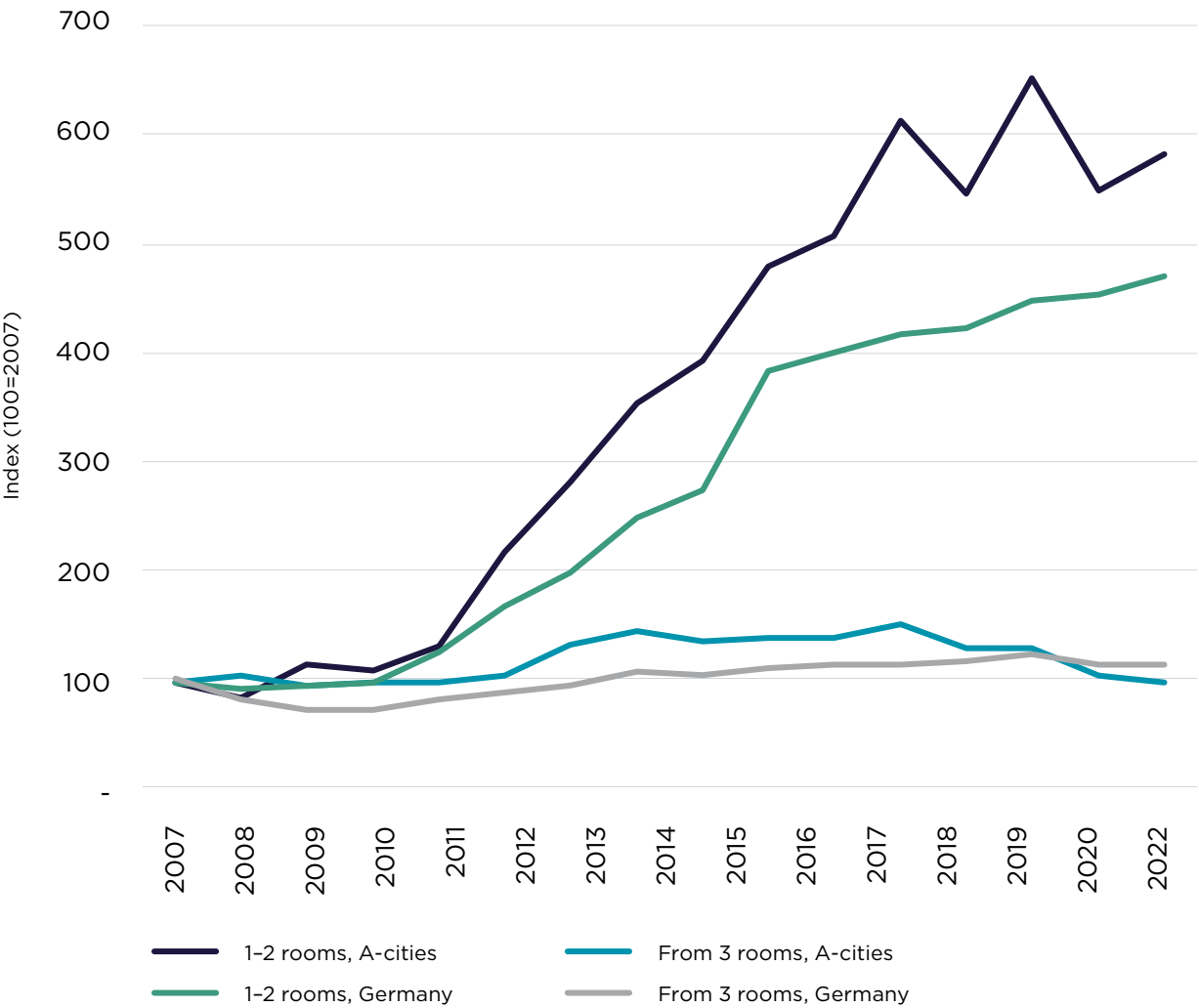


BUILDING PERMITS AND COMPLETIONS

SMALL FLATS ON THE RISE

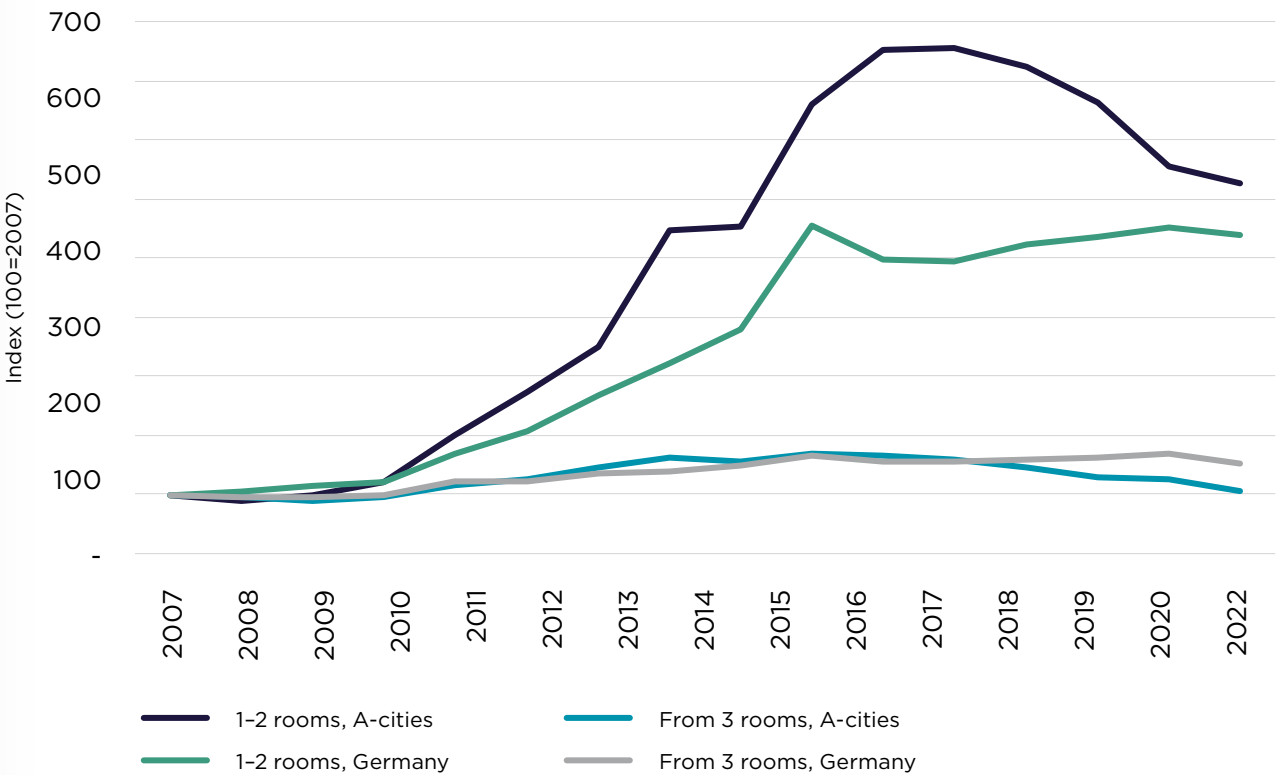
Since 2007, the number of completed smaller flats with one to two rooms has massively increased across Germany – by 368 percent, from just under 18,000 to 84,000 in 2022. The increase was even more pronounced in major cities and top 7 cities, rising by 548 percent up to the peak in 2020. However, the number of completions in the A cities stagnated again from 2018 to 2022, ranging between around 11,000 and 13,000 apartments per year. In contrast, the number of completions for larger apartments with three or more rooms has only increased moderately since 2007 and has been declining again in the A-cities since 2019.

HOUSING COMPLETIONS BY NUMBER OF ROOMS SINCE 2007: A-CITIES AND GERMANY



Sources: Bulwiengesa, Federal Statistical Office (Destatis), Cushman & Wakefield, 2024

BUILDING PERMITS FOR FLATS BY NUMBER OF ROOMS: A-CITIES AND GERMANY



Sources: Bulwiengesa, Federal Statistical Office (Destatis), Cushman & Wakefield, 2024

Since 2019, the number of building permits for one- to two-room apartments in major cities has also been decreasing significantly again – down by 27 percent in 2022 compared to 2019. A further decline in completions is expected in the coming years, which will be even more pronounced for larger flats. In response to the increased financing interest rates and construction costs, building permits have sharply declined since 2023, indicating a downward trend in completions for the rest of the decade.



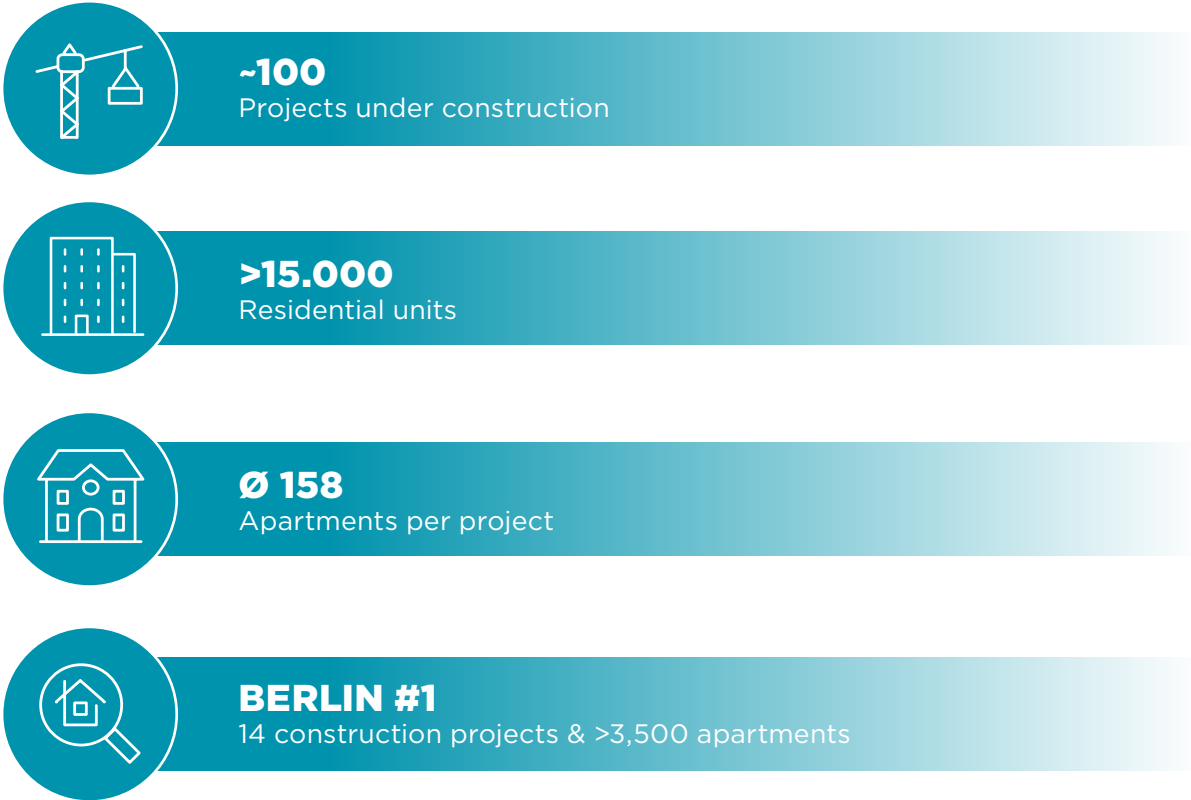
MICRO APARTMENTS IN DEVELOPMENT

PROJECT DEVELOPMENTS ARE GETTING BIGGER

In 2021, around 500 micro-living projects including serviced flats with approximately 50,000 residential units were in development, construction or planning. Some of these projects were completed in 2022/2023, while for others, the planning changed again before construction began, or they were delayed due to extended planning and construction phases. Some projects were even completely abandoned.

By 2022, around 100 projects were still under construction, expected to result in over 15,000 residential units. Of these, over 40 projects with around 5,000 residential units were completed in 2023 or are scheduled for completion in 2024. A further 25 projects with around 4,200 residential units are planned for completion in 2024 and 2025. The majority of the developments are located in urban areas, particularly in major cities and university towns, with a regional focus on Berlin and the former West German states.

The identified projects are relatively large, with an average of 158 residential units each. In 2021, Cushman & Wakefield [\(REPORT 2021\)](#) identified only around 100 units per project in a slightly different composition, including serviced flats. Larger apartment buildings are generally more efficient to operate and cheaper to build per unit. In the current environment of high financing interest rates and increased construction costs, this is a way to maintain profitability.



Sources: Bulwiengesa, Thomas Daily, Cushman & Wakefield, 2024

MOST MICRO-LIVING UNITS ARE BEING BUILT IN BERLIN, FRANKFURT AND DUSSELDORF

Among Germany's ten cities with the most micro-living residential units currently under construction include five of the top 7 cities. Berlin, Frankfurt and Düsseldorf lead the list with a combined total of over 6,000 residential units. All three are experiencing strong population growth and positive net migration of young people aged between 18 and 40.

What all ten cities have in common is their status as locations for major universities or colleges and/or large companies. Ludwigshafen is an exception, with fewer than 5,000 students in 2022/2023, but it is home to BASF with around 39,000 employees, and the university city of Mannheim, with approximately 30,000 students, is located nearby.

TOP 10 CITIES BY MICRO-LIVING UNITS UNDER CONSTRUCTION

Rank	CITY	COUNTY	NUMBER OF PROJECTS	NUMBER OF UNITS
1	Berlin	Berlin	14	3,537
2	Frankfurt am Main	Hesse	8	2,102
3	Dusseldorf	North Rhine-Westphalia	4	676
4	Ludwigshafen	Rhineland-Palatinate	2	641
5	Aachen	North Rhine-Westphalia	3	634
6	Hamburg	Hamburg	5	571
7	Osnabrück	Niedersachsen	2	554
8	Munich	Bavaria	4	536
9	Lübeck	Schleswig-Holstein	2	490
10	Hanover	Niedersachsen	2	477

Sources: Bulwiengesa, Cushman & Wakefield, 2024

04

MICRO APARTMENTS AS AN ASSET CLASS

MORE THAN SMALL FLATS OPERATOR CONCEPT WITH TARGET GROUP CUSTOMISATION

Micro-living is no longer just about with student living. Over the years, the market has evolved to cater to a range of target groups – from students to professionals and travellers and older people with care needs. Micro apartments address these diverse needs with a variety of services, positioning themselves between traditional housing and hospitality. What all micro apartment concepts have in common is the presence of an operator and typically a limited rental period. The market has experienced significant growth in recent years, and many leading operators in both the student and business flat sectors are currently planning further expansions.

MICRO APARTMENTS IN THE GERMAN HOUSING MARKET

OPERATOR CONCEPT, SERVICES AND RENTAL MODEL DIFFERENTIATE MICRO APARTMENTS FROM TRADITIONAL APARTMENTS

A few years ago, the term micro apartment was almost exclusively associated with student housing. Today, it encompasses a range of compact living options that can be categorised into the segments of micro-living, serviced apartments, and assisted living. These concepts are typically characterized by an operator who manages all tenants within the property and a fixed-term rental period from a construction law perspective, micro apartments are treated the same as traditional apartments – the buildings are classified as residential buildings and must comply with the same building regulations.

The primary distinction from the classical housing market lies in the operator concept. Additionally, the services, which are usually aimed exclusively at the residents, are also not found in standard residential buildings. The extent of the differences compared to the traditional rental market depends on the specific living and housing structure, the tenant demographic, and the range of services offered. A significant difference is also found in the rental payments, which are generally charged as a flat rate.



FURNITURE

The apartment is at least partially furnished, often fully furnished including fitted kitchen, bed, table, cupboards, chairs and lamps






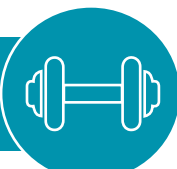
HOUSEHOLD APPLIANCES

Refrigerator, cooker, microwave and often (shared) washing machine and dryer



THE ALL-IN RENTAL CONCEPT

Unlike the traditional residential market, micro apartments usually do not have ‘cold rents’ with separately billed operating costs, instead, they offer what are known as all-in contracts. This means that in addition to the basic rent, ancillary costs, provided furnishings, and additional services are billed directly. Due to the combination of furnishings with fixed-term contracts, operators are not subject to rent caps, although most apartment buildings are either newly constructed or have been extensively modernised and are thus exempt from rent caps. As a result, the prices per square meter are generally significantly higher than for regular apartments. On the other hand, tenants receive a predictable overall package for the rental period without unforeseen additional payments. The service costs included depend on the operator’s offer and can vary significantly. Typically, the all-inclusive package includes:

-  **SERVICE CHARGES**
Heating, water, electricity
-  **INTERNET AND CABLE-TV**
-  **FIXTURE AND FURNITURE**
Furniture, Kitchen, household appliances etc.
-  **MAINTENANCE AND REPAIR**
-  **ADDITIONAL SERVICES**
Cleaning, laundry, occasionally concierge services
-  **COMMUNITY AREAS**
Gym, pool, communal areas

OPERATORS - THE KEY PLAYERS IN THE MICRO-LIVING SEGMENT

In the German market, the operator usually acts as the master tenant on behalf of the property owner. As such, they sublet the individual apartments to residents and may offer additional services. Operators as master tenants reduce the administrative burden for property owners, as they serve as the sole point of contact and typically rent the property on a long-term basis. However, the owner also becomes dependent on the quality and financial stability of the operator, which can pose a higher risk. Another possible model is where the operator or provider of housing, care or other services acts only as an additional service provider without being the master tenant. However, this concept is rare in Germany.



CHARTER OF APARTMENT CONCEPTS:
THE MARKET INCLUDES COMMERCIAL AND RESIDENTIAL OFFERS

The main differences between the various micro apartment segments lie in the type of leasing. For example, micro-living and senior living are considered residential, while serviced apartments are commercial properties. Whether an offering is considered residential or commercial depends on various factors in each case and can only be broadly outlined here.

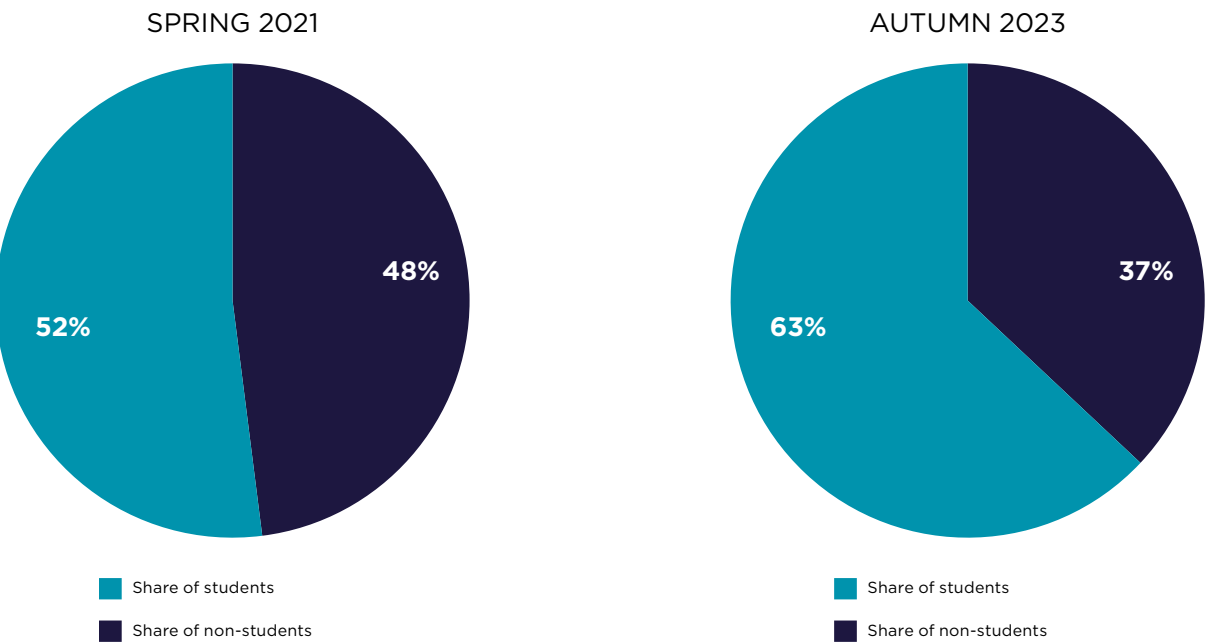
CHARACTER- ISTICS	RESIDENTIAL CONCEPTS				COMMERCIAL CONCEPTS		
	LIVING APARTMENTS				SERVICED APARTMENTS		
Length of stay	min. 3 to 6 months, for temporary use with time limit or indefinitely				1 night to 6 months		
VAT	exempt				not exempt		
Type of contract	Residential rental agreement				Accommodation contract		
Apartment concepts	Senior living	Micro living	Student living	Co-living		Serviced Apartmenthouse	Apart hotel
Rental model	Usually net rent plus service charge	Net cold rent or all-in rent	Usually net cold rent or all-in rent		Gross rate, incl. service charges, internet and usually cleaning		
Operator	Yes and no	Yes and no	Yes and no	Yes	Yes	Yes	Yes
Apartment size (focus)	from approx. 40 sq m	approx. 25-40 sq m	approx. 16-25 sq m	approx. 20-150 sq m, also shared flats (Ø 14 sq m)	approx. 18-25 sq m	approx. 20-40 sq m	approx. 20-30 sq m
Furnishing	often unfurnished or partially furnished	unfurnished to fully furnished, mostly fully furnished		Partly and fully furnished / equipped	Fully equipped		
Services	none to specific	none to selected		selected	selected to complete	limited to selected	selected to complete
Shared areas	rather frequent	rather rare	none to extensive, mostly study rooms, launderette, media room	very pronounced, part of the concept		usually living lobby, fitness	mostly lobby, fitness & sauna, restaurant, bar, meeting rooms
Target groups	Senior citizens	Project workers, commuters, flat seekers	Students and trainees	Students, trainees, young professionals, expats, flat seekers, singles, especially international guests, live changers	Business travellers, project workers, workation & bleisure travellers, tourists, trainees, job rotation, relocation, private travellers in need		

TARGET GROUPS AND OFFERINGS

YOUNG PROFESSIONALS AND TRAVELLERS REPLACE STUDENTS AS THE MOST IMPORTANT CONSUMERS

Students continue to represent a large demand group for micro apartments, but recent years have shown a shift in trends. While students made up 48 percent of tenants in 2021, this figure had dropped to just 37 percent by 2023, according to an analysis by the Initiative Micro-Living, which reviewed over 100 apartment buildings nationwide with a total of more than 20,000 residential units. About 63 percent were professionals and travellers. Project-based work in various locations, temporary housing during a job change to another city, or the use of in-house services to simplify daily life are just a few examples of the high demand from other target groups.

TREND SHIFT: TENANTS OF MICRO APARTMENTS IN 2021 AND 2023



Source: Initiative Micro-Living, Cushman & Wakefield, 2024

LIFESTYLE LIVING: MICRO APARTMENT CONCEPTS CATER TO TARGET GROUP NEEDS

Micro apartment concepts are tailored to the respective target groups, often blurring boundaries and embracing hybrid forms. In this way, This approach meets residents where they are in life, making their living situations easier. Depending on individual needs, services can range from cleaning, laundry, and reception services to maintenance support or even an in-house fitness studio. The senior living / assisted living segment is particularly customised to its target group with its specific services.



STUDENTS

Micro apartments allow students to live independently and close to university without the hassle of buying furniture and household appliances. The furnishings are usually quite basic, in line with students' budgets.



YOUNG PROFESSIONALS

Young professionals can live centrally and close to work and city amenities. With appropriate services, they can save time on household chores, allowing them to focus on work and leisure.



COMMUTERS

For those who need a second home for work reasons, micro apartments offer comfortable, low-maintenance, and fully furnished living spaces, with optional additional services. Wohnraum inklusive optional hinzubuchbarer Services.



SENIORS

Micro apartments are a convenient and low-maintenance housing option for many older people. Assisted living caters specifically to the needs of seniors with barrier-free design and various additional services.

OPERATOR MARKET

STUDENT APARTMENTS

TOP OPERATORS EXPAND THEIR OFFERINGS

The top 10 providers in the student micro apartment segment currently operate 27,935 apartments across 115 properties. An additional 5,151 apartments in 19 buildings are in the pipeline until 2028, reflecting the sharp increase in demand for compact living arrangements.

Since students are no longer the only demand group, some providers have expanded their offerings to appeal to other user groups. For example, i Live GmbH, also makes its apartments available to trainees, interns and commuters, while Berlinovo offers apartments for various tenant groups in two of its buildings. It is expected that more operators will follow this trend.

Although the demand for quality and amenities has noticeably increased, new and modern apartments are not always affordable, particularly for students. As a result, the apartments offered by the Deutsches Studierendenwerk, which currently has around 196,300 apartments with approximately 14,200 more in the pipeline, remain a popular alternative.

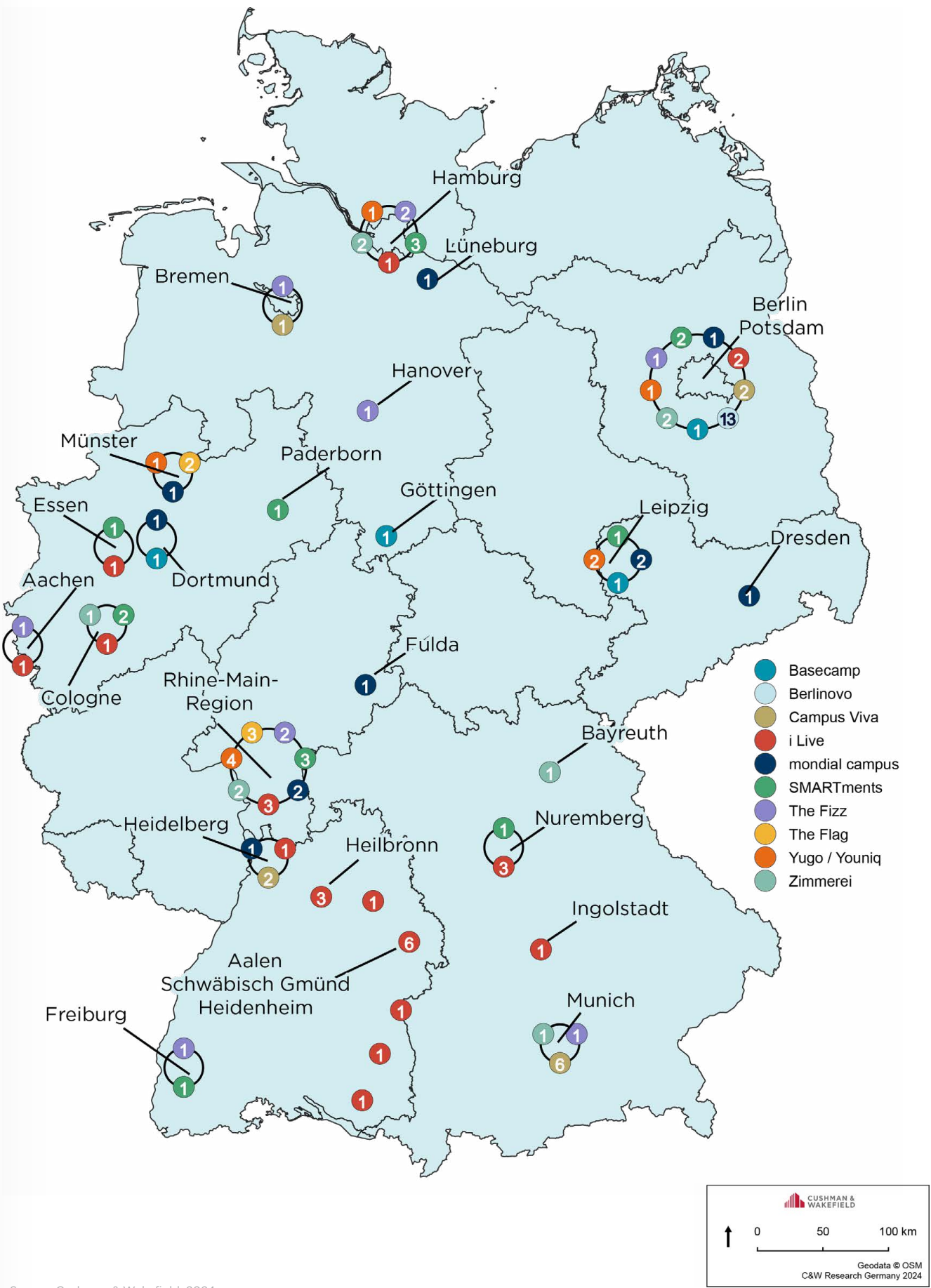
TOP 10 LARGEST OPERATORS OF STUDENT APARTMENTS IN GERMANY*

	PROVIDER	HOUSES	APART- MENTS	PIPELINE HOUSES	PIPELINE APART- MENTS	EXISTING + PIPELINE APARTMENTS
1	i Live	27	6,129	4	1,103	7,232
2	Berlinovo	13	3,263	9	2,629	5,892
3	THE FIZZ	10	3,204	2	687	3,891
4	SMARTments	16	2,807	1	200	3,007
5	Campus Viva	11	2,592	0	0	2,592
6	mondial campus	11	2,577	0	0	2,577
7	Zimmerei	9	2,488	0	0	2,488
8	Yugo / Youniq	9	2,119	0	0	2,119
9	Basecamp	4	1,616	1	300	1,916
10	THE FLAG	5	1,140	2	232	1,372

*Except Student Housing of the German Student Association

Source: Cushman & Wakefield, 2024

LOCATIONS OF THE TOP 10 OPERATORS OF STUDENT APARTMENTS



Source: Cushman & Wakefield, 2024

OPERATOR MARKET MICRO APARTMENTS

SMALL-SCALE MARKET OFFERS OPPORTUNITIES FOR PROFESSIONALISATION

Just as with user groups, many operators are also flexible with regard to the length of stay, allowing payments to be made either per night or per month. The blurred lines between aparthotel, serviced apartmenthouse, co-living and micro-living are evident, for instance, in aparthotels, in addition to their regular offerings, include so-called long-stay options aimed at monthly rentals. This creates a certain degree of ambiguity within the entire non-student sector.

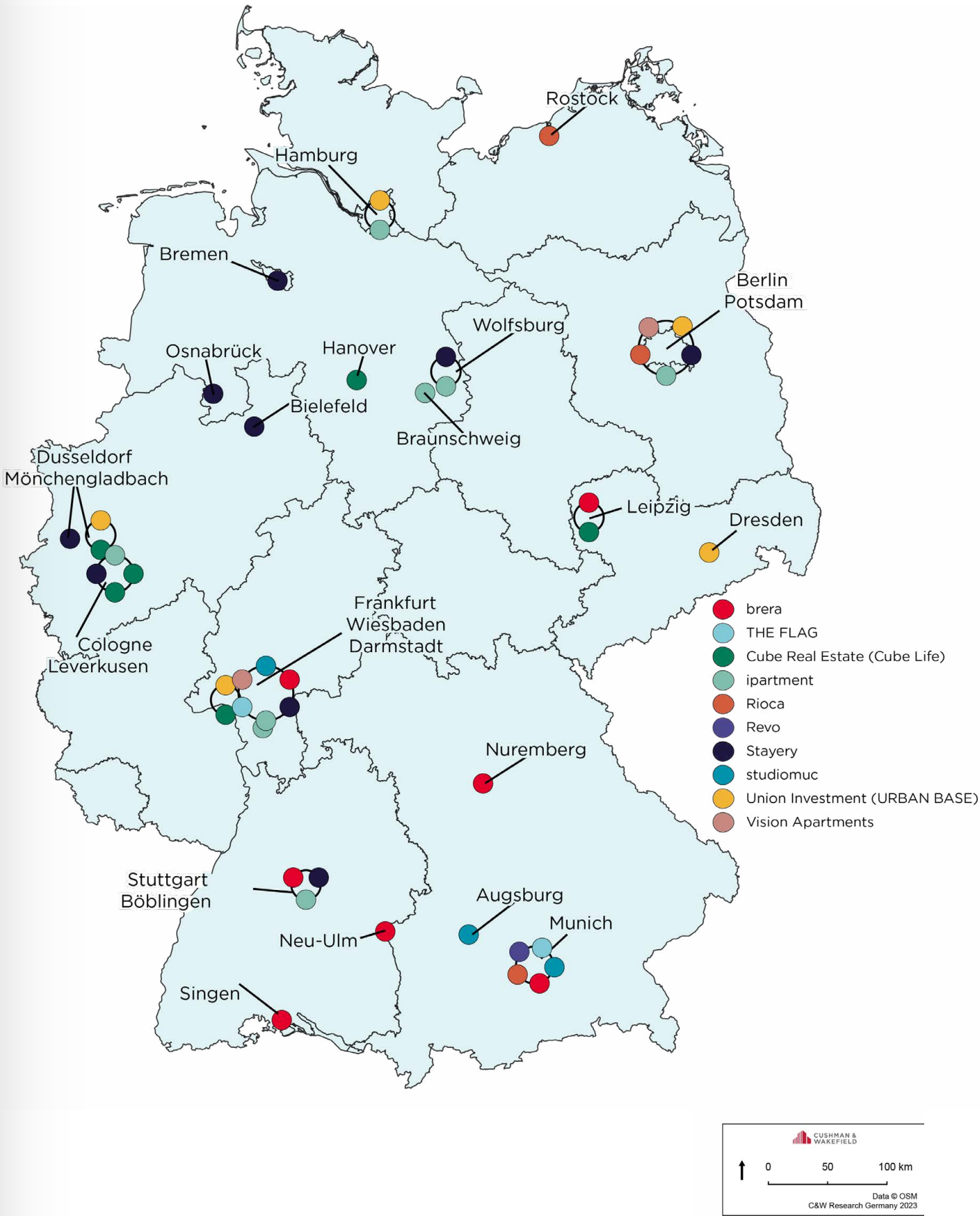
In addition to the top 10 providers with over 8,500 apartments, there are numerous smaller operators with either a single or several individual apartments spread across multiple buildings. Small providers often operate in just one city. This fragmented market offers great opportunities in terms of professionalisation and internationalisation, allowing for the creation of new standards.

TOP 10 LARGEST OPERATORS OF BUSINESS APARTMENTS IN GERMANY

	PROVIDER	HOUSES	APART- MENTS	PIPELINE HOUSES	PIPELINE APART- MENTS	EXISTING + PIPELINE APARTMENTS
1	Cube Real Estate (Cube Life)	8	1,312	1	60	1,372
2	ipartment	17	approx. 1,300	6	approx. 500	approx. 1,700
3	Union Investment (URBAN BASE)	5	approx. 1,000	1	33	approx. 1,033
4	Rioca	6	906	3	500	1,406
5	Stayery	9	approx. 900	4	approx. 400	approx. 1,300
6	THE FLAG	5	883	0	0	883
7	brera	8	approx. 700	0	63	approx. 700
8	stuiomuc	3	689	0	0	689
9	Revo	1	607	0	0	607
10	Vision Aparments	2	450	0	0	450

Source: Cushman & Wakefield, 2024

LOCATIONS OF THE TOP 10 OPERATORS OF MICRO APARTMENTS



Source: Cushman & Wakefield, 2024

INTERVIEW WITH THE FLAG

For more than ten years, THE FLAG has been planning, building and operating specialised housing options for students, business professionals and seniors who wish to live in a service-oriented environment for an extended period. In doing so, the family-owned company places great importance on being firmly rooted in the local community, creating a place for, and providing outstanding service to its guests.

WHAT SETS THE FLAG APART FROM OTHER MICRO APARTMENT OPERATORS?*

THE FLAG operates along the entire real estate value chain. We select land or buildings suitable for revitalisation, finance, develop and construct on them, keep the building in the portfolio and later operate the buildings. We do this across our three different business segments, allowing us to analyse from the outset which location would be optimal for each segment.

As family-owned company, we are guided by the concept of hospitality. However, we see ourselves not just as hosts but as an integral part of the local community. For the services we require – from financing to construction – we always strive to use local providers. The same approach applies to subsequent operations. This allows us to quickly become part of the local community and better understand its needs and dynamics.

WHAT ARE YOUR KEY TARGET GROUPS, AND WHAT STRATEGIES DO YOU PURSUE TO ADDRESS THEM SPECIFICALLY AND REMAIN ATTRACTIVE?

As we are also project developers, our target groups evolve over time. During the development phase, we engage with politicians, administrative bodies, and the public; later we involve neighbours and

interested community groups. When the building is completed, the focus shifts to potential tenants and their surroundings.

We tailor our strategies individually to each of our business areas, both for attracting new tenants and for retaining them. For instance, in the long-stay business customer segment, ESG measures are currently more significant than in the other business areas. Although, as a long-term, family-run company, we already do a lot in this area, it has become increasingly important for business customers to receive clear and reliable documentation of these efforts.

In day-to-day operations, well thought-out service is a critical success factor across all business areas, even if it may sound trivial. Our broad-based internal improvement processes help us continuously enhance the quality and creativity of our service.

However, one of the most crucial aspects lies in the initial site selection. If we are not one hundred percent convinced by a location, we do not build there. Even in the current situation of limited available land, we make no compromises in this regard. This ultimately benefits the users of our buildings, who not only enjoy excellent connectivity and infrastructure but also often impressive views from roof terraces.



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Well thought-out service is a critical success factor.

DR. EIKE JULIA MUHR

Managing Director
THE FLAG

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If we are not one hundred percent convinced by a location, we do not build there.

HAVE YOUR TARGET GROUPS GROWN OR CHANGED IN RECENT YEARS? HOW DO SENIORS USE YOUR SERVICES?

Since we operate with a very focused approach across our three business areas, the number of target groups has not grown significantly. However, the number of people to whom we offer a temporary home is increasing. There is a shortage of inner-city housing, as well as a lack of barrier-free, age-appropriate and service-oriented living options.

For example, we are currently revitalising a former office building in Wiesbaden to create new apartments for senior citizens. The demand in the Hessian state capital is enormous, as around 35 percent of Wiesbaden's population is over 65 years old, and many of them wish to continue living in their familiar surroundings, with easy and convenient access to local medical services. The proportion of 'Silver Agers' is set to rise in the coming years across nearly all major German cities, thanks to the Baby Boomer generation.

However, we are also seeing increased demand in other business areas, such as among students who, due to the lack of available housing, rely on specialised student accommodation offerings.

WHAT PERCENTAGE OF YOUR APARTMENTS ARE RENTED BY STUDENTS AND BUSINESSES? ARE THERE TIMES WHEN THIS RATIO CHANGES SIGNIFICANTLY?

Our student housing offerings are exclusively for students, so occupancy rate in that segment is 100 percent. Corporate contracts naturally play an important role in our hotel business segment. However, the percentage of overnight stays under such corporate framework agreements varies greatly depending on the location and property, ranging from one to ten percent. This variation is largely due to the proximity to corporate headquarters, which significantly influences this type of booking. Significant changes occurred only during the COVID-19 pandemic, as many students chose to return home.

*We categorise student living, business apartments, and senior living / assisted living under micro apartments.



We are increasingly seeing a desire among our guests for offers that go beyond just accommodation.

HOW HAVE THE NEEDS OF TENANTS IN THE MICRO-LIVING SEGMENT EVOLVED OVER TIME AND WHAT TRENDS DO YOU ANTICIPATE FOR THE NEAR FUTURE?

In all our business areas, digitalisation and digital support are becoming increasingly important. This ranges from the virtual doorman in our student housing buildings to the connected networked service portal, through which hotel guests can access a variety of services, to Wi-Fi and emergency call systems in senior living properties. In all these cases, digital support is also aimed at simplifying standardised processes and reducing the need for manual labour. This allows us to free up capacity for personalised communication with guests and helps us mitigate the impact of the labour shortage.

In the near future, we are likely to see increased demand in the business travel segment for sustainable offerings that go beyond lip service. These demands are increasingly coming from the corporate side of business travellers, who will ultimately filter out housing options that lack sufficient commitment and documentation in the ESG area. This is similar to how US companies marked hotels as unbookable around 20 years ago if they implemented inadequate fire safety measures.

Another trend is the desire for services that go beyond just accommodation. The English term 'amenities' captures this well. It doesn't refer to toiletries in a hotel or an in-house restaurant. Our guests increasingly expect us, as providers, to create diverse spaces for interaction. We see this desire across all our business areas. Therefore, today we offer coworking spaces, places with a high-quality communal areas like shared terraces or lounges, as well as fitness studios and various event and leisure options.

WHAT STRATEGIES DO YOU USE TO ADDRESS THE DIFFERENT NEEDS OF SHORT-STAY USERS, WHO STAY FOR LESS THAN SIX MONTHS, AND LONG-STAY USERS?

Our offer adapts flexibly in terms of both price and service to suit different lengths of stay. A guest does not necessarily think in terms of the duration of their stay, but rather in terms of their work. For example, a business traveller may only need to stay briefly to work on a project, while other projects might require several months. Accordingly, the guest will require different services. Laundry and shopping services, electric charging stations, or work infrastructure may be less important during a short stay but become essential during a longer stay.

The same principle applies to our offerings for student housing and senior living. Here, too, we aim to impress with a central location and a predefined mix of location and infrastructure, supported by a level of service that goes beyond the norm.

WHAT ROLE DOES DIGITALISATION PLAY IN YOUR OPERATIONS? DO YOU SEE FURTHER POTENTIAL IN THIS AREA?

One of the key concerns for operators of micro-apartments today is the shortage of skilled workers. This reality will further drive digitalisation in the hospitality industry, and we will see even more processes shifting into the digital realm. In some lounges, clearing robots are already making their rounds. I also believe that AI systems will start to play a role in customer interactions. However, we are currently approaching these systems with caution, as they can be manipulated with sophisticated prompts and could at the very least cause reputational damage.

WHAT MEASURES ARE YOU TAKING TO REDUCE ENERGY COSTS IN YOUR APARTMENT BUILDINGS AND INCREASE ENERGY EFFICIENCY?

In Germany, the standards for new construction and revitalisation of buildings are already set very high. From the very beginning of our operations, we have constructed our buildings according to the highest KfW standards, thus continuously improving the energy quality of our buildings.

In addition to these high standards, we implement a range of measures to further enhance the energy efficiency of our buildings. For example, we install efficient two-stage heating system using heat pumps and pellets, as well as solar panels on rooftops to generate renewable energy. Furthermore, we undertake initiative such as the reduction of CO₂ footprints, the identification of the CO₂ transparency label, and the raising of guests about resource consumption. Additional steps include rolling out new waste management systems, strengthening collaboration with local producers and service providers, and promoting climate-friendly mobility. These and other measures are detailed in our ESG reports.



In light of the changes in KfW financing, we are expanding our project development to include the revitalisation of existing buildings.

TO WHAT EXTENT ARE INFLATION AND RISING INTEREST RATES AFFECTING YOUR OPERATING COSTS AND YOUR EXPANSION STRATEGY? HAVE YOU TAKEN MEASURES TO MITIGATE THESE RISKS?

The lack of available land for development, the increasing bureaucracy in some parts of Germany, and rising interest rates made it necessary to adjust our strategy. We have responded to these challenges with three strategic approaches.

Firstly, in light of changes in KfW financing, we are expanding our project development to include the revitalisation of existing buildings. We are already converting former office buildings into rental apartments in our first two projects, one in Cologne and one in Wiesbaden. The Cologne project is aimed at young professionals and students, while in Wiesbaden, we are developing a THE FLAG Senior Living facility. Previously, we revitalised two properties in Frankfurt, creating student housing.

Secondly, we only get engaging in locations where there is political will and a capable administration to support the project. If an administration is, for example, understaffed or if new residential developments are viewed as disruptive, we choose not to invest.

Thirdly, we are expanding more internationally. We are already actively pursuing this strategy and now have our own properties in Switzerland, Spain, and on the East Coast of the USA, in Manhattan.



Due to the demographic changes, there is significant potential in the market for age-appropriate and service-oriented housing.

HOW AMBITIOUS ARE YOUR PLANS FOR FUTURE GROWTH IN THE MICRO APARTMENT SECTOR? ARE THERE SPECIFIC TARGET MARKETS OR REGIONS YOU ARE FOCUSING ON?

THE FLAG intends to continue growing, and we are doing so. Due to demographic changes, there is significant potential in the market for age-appropriate and service-oriented housing. Additionally, it is becoming clear that the political goals regarding the construction of inner-city apartments will not be met, and we will have to contend with a shortage of urban housing for the foreseeable future. Specialised housing options can help provide students and seniors with opportunities to live in the city. We will therefore continue to grow in Germany and, preferably in European countries, particularly in the sectors of Senior Living and Young Professionals & Students.

DO YOU PREFER LEASE AGREEMENTS OR MANAGEMENT CONTRACTS FOR YOUR APARTMENTS? WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF THESE TYPES OF CONTRACT FOR YOUR COMPANY?

That is an important and good question. In almost all of our properties, we have opted for a third approach. By developing the properties ourselves, leveraging our experience to build customised buildings, we employ a strategic advantage that impacts maintenance costs, quality of stay, range of services, and much more. We approach the development of a new property with great care and a mindful mindset, as we have to live with the built for many years to come.



ABOUT THE FLAG

THE FLAG offers specialised housing for students, business professionals, and seniors in Germany and several other European countries, with plans to continue growing as both owner and operator. The company's portfolio now includes 19 houses with more than 2,500 high-quality and centrally located apartments. Numerous additional services are provided to make long-term stays as comfortable as possible. As a result, most properties offer amenities such as a concierge services fitness centres, cleaning services, restaurant, terraces and underground parking spaces.

05

MICRO APARTMENT RENTAL MARKET

THE MARKET SHOWS A WIDE RANGE OF RENTAL PRICES – OPERATORS SEE FURTHER GROWTH POTENTIAL

In recent years, rental prices in the regular housing market have risen significantly in Germany's top seven cities. Although there is less historical data available for the emerging asset class of micro apartments, the current market situation provides a clear snapshot. Evaluations from 2023 show a wide range of prices in major cities, from very affordable to very high-end. Due to their short-term lease agreements, amenities, and all-inclusive rents, micro apartments have so far been unaffected by rent regulation measures, allowing for substantially higher per-square-metre prices compared to regular apartments. The operators surveyed are generally optimistic about future rent developments.

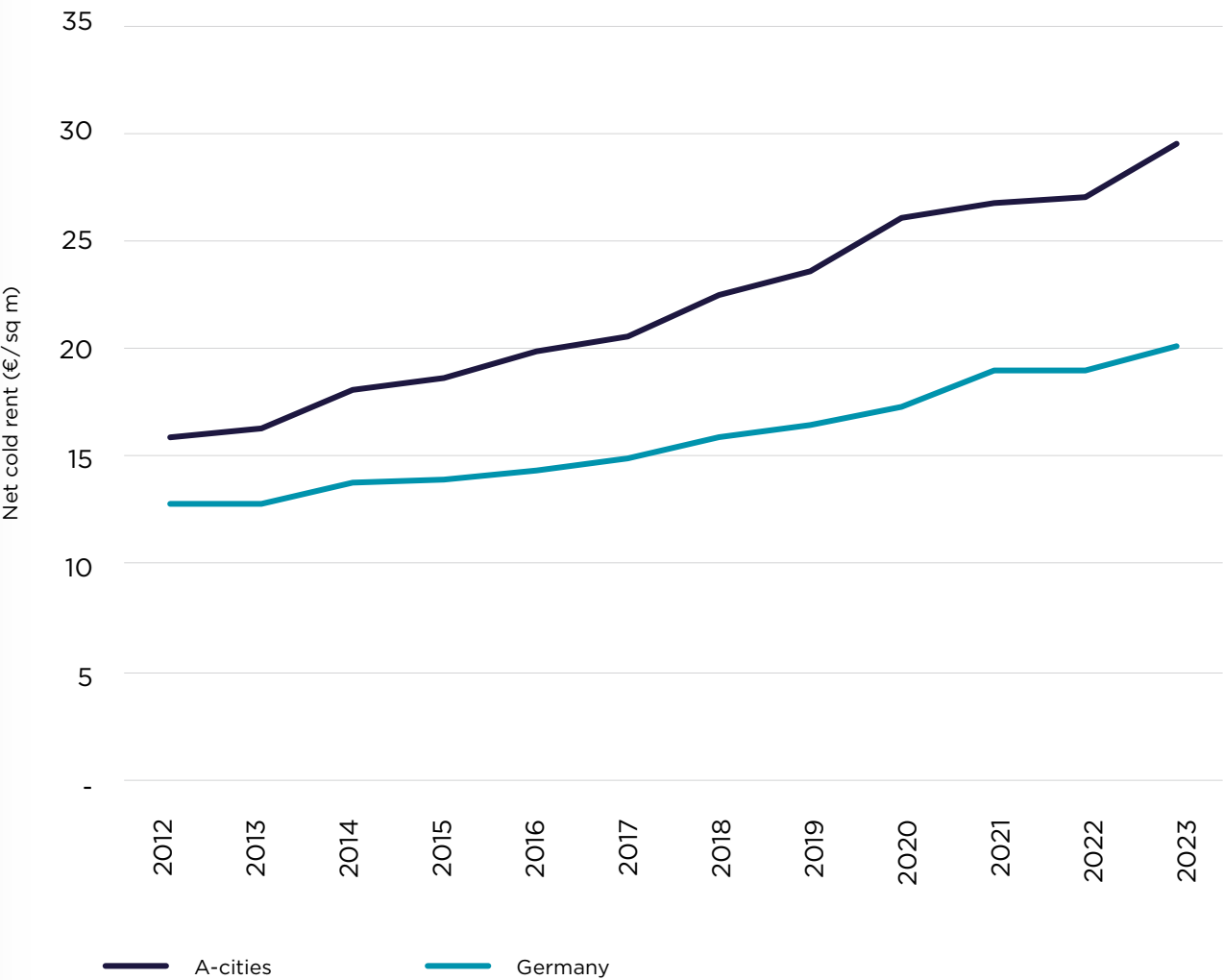


RENTAL TRENDS IN GERMANY

RENT PRICES FOR SMALL APARTMENTS ARE RISING, ESPECIALLY IN METROPOLITAN AREAS

Since 2012, both average and top-end rents for small apartments in Germany have steadily increased, , with the most significant rises occurring in major cities. While advertised rents in the traditional housing market for the 90th percentile of one-bedroom apartments of up to 30 square meters increased by 54 percent across Germany, the increase was 84 percent in the major cities. In 2023, the average net cold rent per square meter was 20.00 euros across Germany and 29.50 euros in the major cities. Due to the continued high demand and a declining annual completion volume, further significant rental growth is expected in the coming years.

ADVERTISED RENTS: 90 PERCENT PERCENTILE FOR ONE-BEDROOM APART- MENTS UP TO 30 SQUARE METRES IN THE TRADITIONAL HOUSING MARKET



Source: Value AG, Cushman & Wakefield, 2024

ALL-INCLUSIVE RENTS VARY WIDELY, WITH C-CITIES HAVING THE HIGHEST AVERAGE

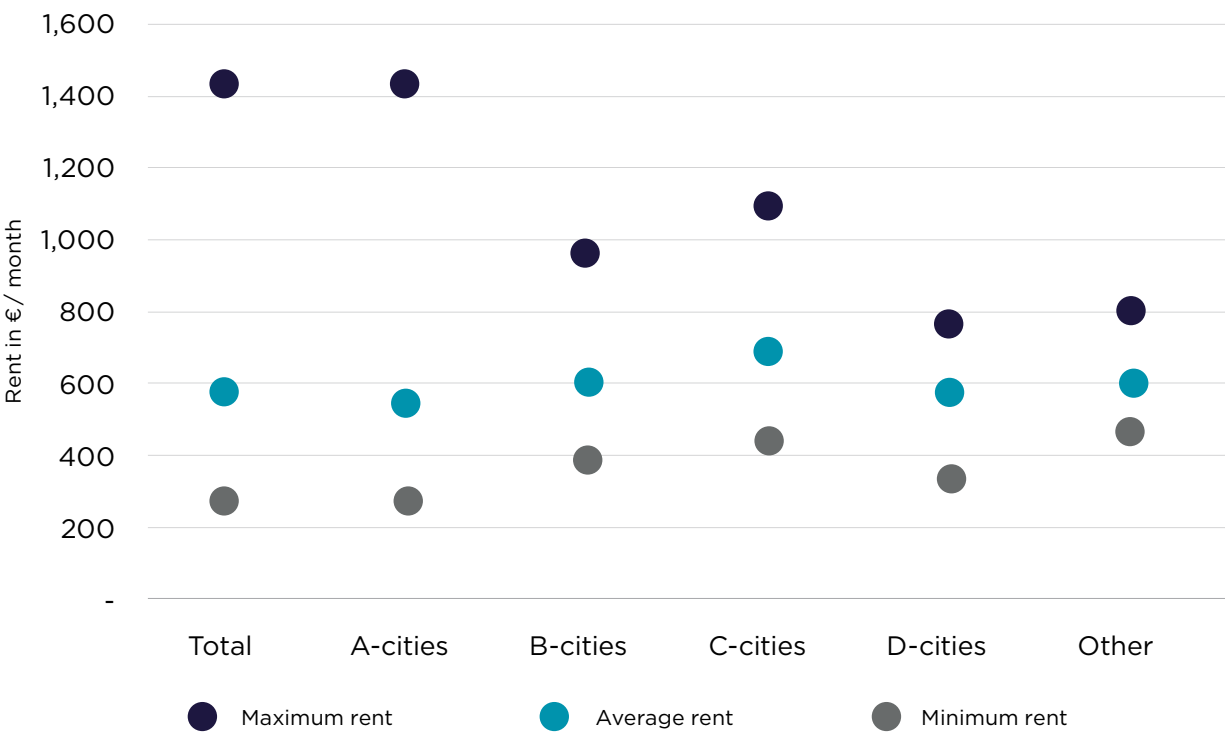
An analysis by the Initiative Micro-Living of approximately 129 apartment buildings with a total of 28,940 residential units shows that the average all-inclusive rent per unit in 2023 was around 575 euros per month. The range is particularly large in the A-cities, with rents varying from 274 euros to 1,434 euros per month. One reason for this wide variance is the inclusion of very different operators and user concepts, even if the focus is primarily on student housing. Interestingly, C-cities recorded the highest average rent and also led in both minimum and maximum rent levels compared to B-cities. This can be explained by the fact that B-cities, even in the regular housing market, generally include more cities with relatively low rent levels, such as the four Ruhr area cities – Bochum, Dortmund, Duisburg, and Essen – as well as the East German centres of Leipzig and Dresden.



The Micro-Living Initiative also the per-square-metre prices for all-inclusive rents, showing a similar pattern. The average monthly rent is 21.70 euros per square metre, with a range from 9.10 euros to 44.10 euros per square metre. With an average of 28.90 euros per square metre, the C-cities also stand out significantly from all other cities. The range is widest in the A-cities, both per unit and per square metre.

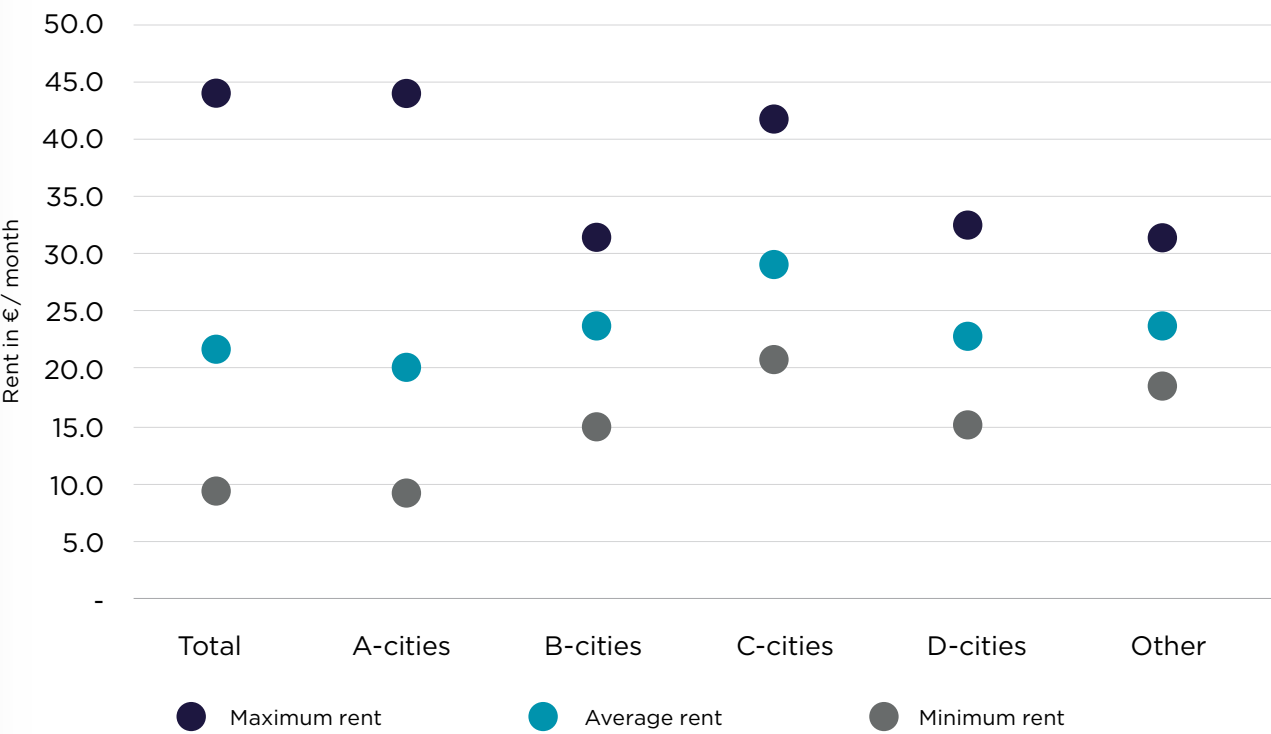


CITY COMPARISON OF ALL-INCLUSIVE RENT RANGES PER UNIT IN 2023



Source: Initiative Micro-Living, Cushman & Wakefield, 2024

CITY COMPARISON OF ALL-INCLUSIVE RENT RANGES PER SQUARE METRE IN 2023



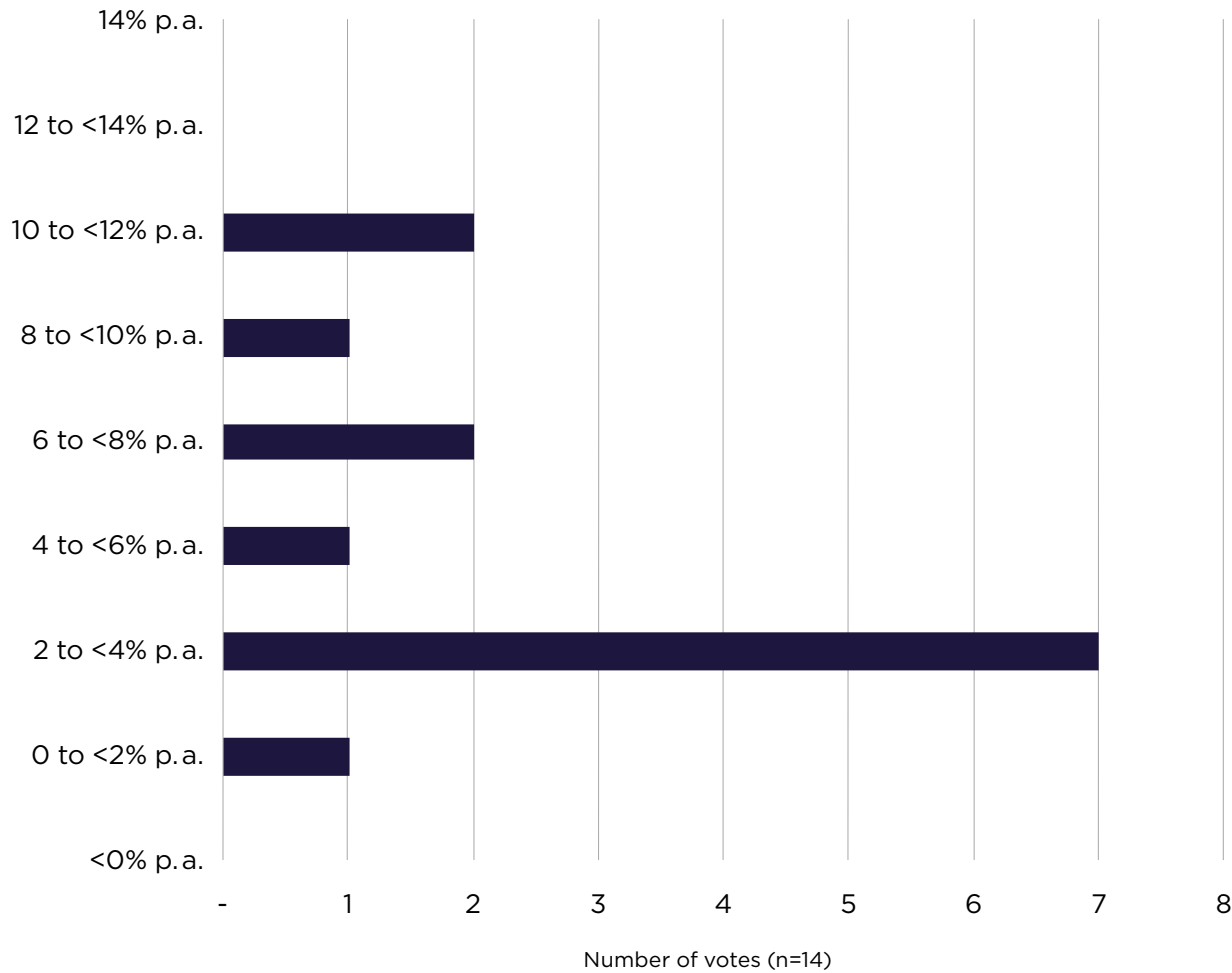
Source: Initiative Micro-Living, Cushman & Wakefield, 2024

RENTAL FORECASTS

OPERATORS' EXPECTATIONS ARE MODERATE TO OPTIMISTIC

The Initiative Micro-Living conducted a survey in 2023 among 14 operators regarding the expected growth rates of in their own apartment buildings over the next three years. About half of the respondents anticipate a moderate rent increase of two to four percent per year, which, given a similarly high inflation rate, would effectively mean no real increase for operators (at the time of the survey in October 2023, the inflation rate was around 3.8 percent). Six other respondents, on the other hand, expected increases of more than four percent in their apartment buildings, with two of them even anticipating rises of ten to twelve percent. These respondents present a very optimistic outlook for further revenue growth, which is particularly relevant for investors concerned with the rental security of operators as master tenants.

EXPECTED NOMINAL GROWTH RATES OF NET COLD RENTS FOR THE NEXT THREE YEARS IN OWN APARTMENT BUILDINGS



Source: Initiative Micro-Living, Cushman & Wakefield, 2024



06

MICRO APARTMENT INVESTMENT MARKET

PRODUCT SCARCITY, HIGH DEMAND AND A SLIGHT YIELD PREMIUM OVER TRADITIONAL HOUSING DEFINE THIS YOUNG ASSET CLASS

The current concept of micro apartments with a private-sector operator is still relatively new, and there is a lack of available stock. The micro-living asset class therefore primarily offers opportunities for investment in new developments. Micro-living is in demand from both institutional and private investors. Both national and international capital sources are showing great interest in this asset class and are seeking entry or further investment opportunities. The typically high rents and reliance on operators lead to a slight yield premium compared to traditional housing.

THE ATTRACTIVENESS OF GLOBAL SALES INCREASES

PROJECT DEVELOPERS AND CORE CAPITAL SOURCES DOMINATE THE MARKET

The micro-living asset class has traditionally been dominated by opportunistic and private capital sources. Opportunistic investors focused their strategies on developing customised apartment buildings with long-term leases to an operator. Sales were usually made to institutional core capital sources or private investors.

Operator risk only leads to minor price discounts, as buyers also consider self-management of the apartments to be a realistic option. The yield premium compared to traditional housing is primarily due to the fact that rental rates in this sector are generally significantly higher than the top rents in the traditional housing segment and therefore renting to another operator might require a rent discount. The (operator) concept is crucial for justifying the higher overall costs to the end user. Currently, the yield premium for top rents is 50 basis points higher than for traditional housing (4.40 percent vs. 3.90 percent).

PANDEMIC AS A STRESS TEST: MICRO-LIVING PROVES CRISIS RESILIENCE

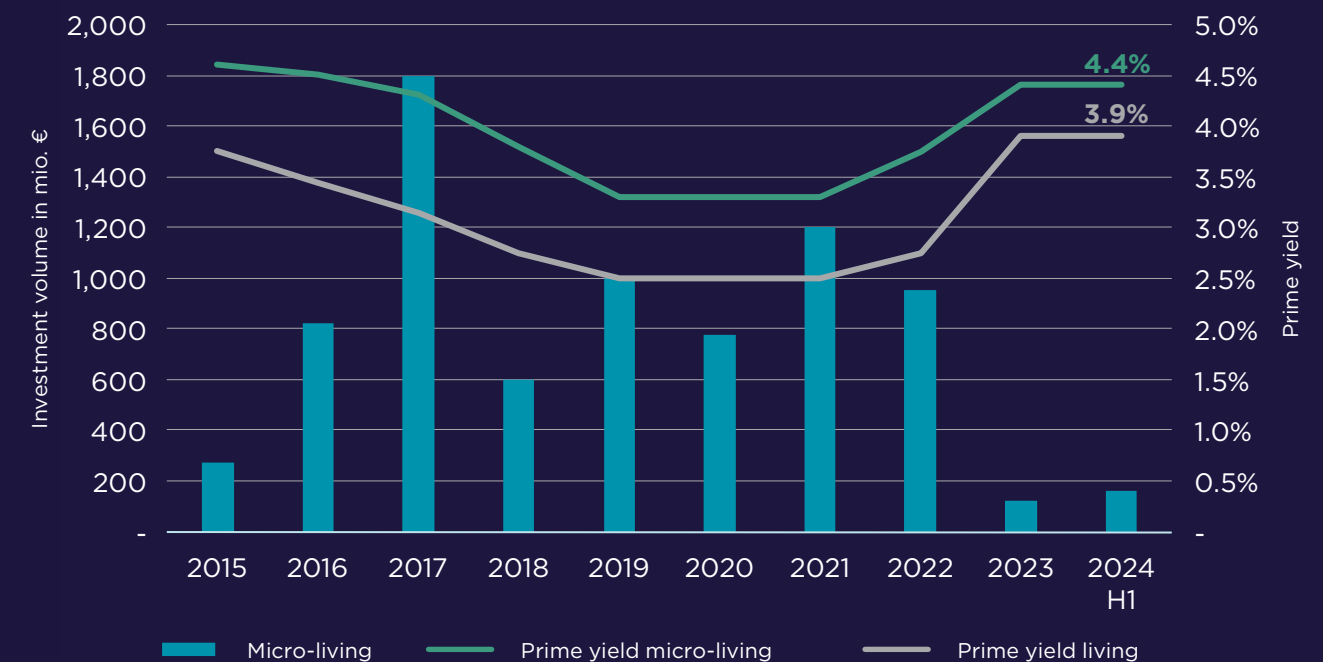
The Covid-19 pandemic can be considered as a successful stress test for the micro-living sector in Germany: contact restrictions, the shift from in-person to online university classes, the temporary absence of international students, and reduced willingness to travel among companies and individuals led to a significant decline in the occupancy rates of micro-living apartment buildings.

Nevertheless, it has been shown that most operators were already well-positioned and could withstand the operational losses. Demand for micro-living apartments is now greater than before the pandemic – investor scepticism regarding operator creditworthiness has long since dissipated, and there is now a search for investment opportunities. This is also reflected in the fact that the previous yield premium over traditional, which was around 80 to 115 basis points, has decreased to 50 basis points since 2023.

PRODUCT SCARCITY AND PORTFOLIO TRANSACTIONS LEAD TO VOLATILE INVESTMENT VOLUMES

The investment volume in the micro-living asset class in Germany has varied in recent years between approximately 600 million euros and 1.45 billion euros, contributing only a small fraction – between two and ten percent – to the total transaction volume in the housing market. The significant fluctuations are mainly due to the high proportion of portfolio transactions and the severe shortage of available products.

MICRO-LIVING VS. TRADITIONAL HOUSING: INVESTMENT VOLUME AND PRIME YIELD



Source: Cushman & Wakefield, 2024

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In recent years, project developers have seen the greatest yield potential in selling individual micro-living apartments to small investors – due to low interest rates and the consequently high demand from this target group. Despite institutional investors' high interest in the asset class, they often fell short due to higher yield requirements. In the current market phase, however, global sales are once again proving to be a much more attractive option: liquidity from national and international capital sources remains available, there is no residual risk from individual, and a streamlined, professional transaction process can be ensured.

JAN-BASTIAN KNOD

Head of Residential Investment
Germany



INTERVIEW WITH COMMERZ REAL

As the Commerzbank Group's asset manager for real asset investments, Commerz Real identified micro apartments early on as a valuable opportunity for its institutional investors. Given the increasingly mobile society and the strained market situation, the company sees strong potential in this asset class for future.

HOW LONG HAS COMMERZ REAL BEEN INVESTING IN THE MICRO APARTMENT* MARKET, AND WHAT LED TO THIS DECISION?

We have been active in this segment for our institutional investors since 2016. At that time, we based our decision on assessing the demand levels and specific needs of various users. We had identified a high and unmet demand potential for micro apartments, particularly in the student sector, which presents attractive investment opportunities for professional investors.



Micro apartments offer a substantial yield advantage over traditional housing, and this is true across Europe.

WHERE DO YOU SEE STRENGTHS AND WEAKNESSES COMPARED TO TRADITIONAL HOUSING?

Firstly, micro apartments offer a substantial yield advantage over traditional housing, and this is the case across Europe. Why? In economic and educational centres in particular, a limited supply of housing available at short notice meets a significant demand surplus. This is particularly evident in urban, central locations. Many people are prepared to forego a larger apartment outside the city or for versatile living space and proximity to

work or university. Instead, the urban environment becomes the 'living room'. Additionally, micro-living benefits from the trend towards smaller households. Increasingly, professionals are expected to be flexible in terms of where they work. This in turn is stimulating demand for second homes.

However, to be successful as an investment, micro apartments require active asset management, meaning they need more attention and investment than traditional housing. The apartments must always be modern and offer a pleasant environment to remain attractive to future tenants, especially given the frequent change of tenants. From our experience, many tenants also select properties based on the community activities offered by the operator.

WHAT FACTORS ARE CRUCIAL WHEN CHOOSING A LOCATION?

First and foremost, there must be a strong demand for housing in the city in general. Primarily, university towns and economic centres are suitable. Equally important is the micro-location – ideally 'in the neighborhood' and close to the university.

Additionally, good public transport connections and a social infrastructure with diverse offerings for daily needs and leisure are essential. For example,



Short-term housing forms will increase in importance.

FLORIAN UNBEHAUN

Head of Transactions DACH
Commerz Real

it is essential that shops for daily needs are close by, as tenants usually do not own a car. Although it may sound basic, the micro-location must always meet the tenants' needs.



Investors should make sure that the property meets high energy and sustainability standards, to remain marketable in the future.

WHAT DOES THE 'PERFECT' MICRO APARTMENT PROPERTY LOOK LIKE FROM AN INVESTOR'S PERSPECTIVE – IN TERMS OF LEASE AGREEMENT, OPERATOR, CONCEPT, AND STRUCTURAL REQUIREMENTS?

Many investors generally prefer experienced and stable operators with long-term lease agreements, which has proven effective in practice. Alternatively, we often acquire micro apartments without an operator and implement a concept through a management

contract with one of our partners. This means that there is no fixed term or lease, and the investor fully participates in the rental success. While there is no absolute security here, the same is true for lease models. However, unlike a lease agreement, you can participate in the upside of higher rental income. We have already successfully implemented this concept with several of our partners.

Structurally, the property must offer comfort and community meaning flexible solutions for small apartment sizes, attractive communal areas, and excellent communication and data connectivity. Investors should also ensure that the property meets high energy and sustainability standards to remain marketable in the future.

*We categorise student living, business apartments, and senior living / assisted living under micro apartments.

WHAT ROLE DOES ESG PLAY IN YOUR INVESTMENT STRATEGY?

An important role – both of our funds active in this segment meet the EU transparency criteria in accordance with Article 8 of the EU Disclosure Regulation. We also focus exclusively on modern new buildings that have good energy efficiency and comply with the EU taxonomy. As with other property types, this is essential for the future fungibility of the property.

HOW DO YOU ENSURE THAT YOUR APARTMENT BUILDINGS REMAIN ATTRACTIVE TO POTENTIAL TENANTS?

Given the often young target group, it is particularly important that the properties are well-maintained and modernised when necessary. This applies not only to the building itself, but also, as mentioned earlier, to the on-site concept, such as community offerings and communal spaces. Of course, comfort in private spaces must be high. At the same time, the apartment must remain affordable. Affordable housing is becoming increasingly important even for micro apartments.

WHAT KEY LEARNINGS HAVE YOU TAKEN FROM THE COVID-19 PANDEMIC?

Location, quality, and flexibility are crucial. For example, during the closure of universities, we targeted other users, including business travellers. Overall, the micro-living segment has proven its robustness and resilience, thanks to the quick recovery of occupancy rates and sustained interest – provided the locations and property quality are right. Thus, the segment has established itself as a flexible and sustainable solution during crises.



Society is becoming increasingly mobile and flexible, which is why short-term living forms of housing are gaining importance.

DO YOU SEE THE MICRO APARTMENTS ASSET CLASS AS A LONG-TERM SUSTAINABLE INVESTMENT OPPORTUNITY?

Definitely. Society is becoming increasingly mobile and flexible, which is why short-term forms of housing are gaining in importance. In addition, the demand surplus in many cities is continuing to grow, further enhancing the profitability of this segment.



The downturn in new residential construction acts as a driver, which is likely to cause rents for micro-apartments to rise in the future.

TO WHAT EXTENT DOES THE CURRENT FINANCING AND REAL ESTATE MARKET ENVIRONMENT INFLUENCE YOUR INVESTMENT DECISIONS IN THE MICRO APARTMENT ASSET CLASS, AND HOW DO YOU ASSESS FUTURE RENTAL GROWTH PROSPECTS?

The segment is indeed feeling the general challenges in the financing and real estate markets, just like other property types. However, this also presents opportunities, as user demand is high and continues to grow. The downturn in the construction of new residential properties is acting as a driver, which is likely to cause rents for micro apartments to rise in the future.

DO YOU HAVE ANY MICRO APARTMENT PROJECTS IN YOUR PIPELINE, OR ARE YOU PLANNING TO EXPAND YOUR INVESTMENTS IN THIS SEGMENT?

Our current portfolio consists of eleven micro-living properties with a total value of over 600 million euros. We intend to selectively expand this commitment further. We often get involved at a very early stage and invest directly in construction projects. For example, in 2024, a project on the Campus Mile in Frankfurt am Main will be completed, where, together with the operator i Live, we are realising one of the

largest micro-living properties in Germany with over 1,100 apartments. However, due to the current financing environment, we are focusing our acquisition reviews on properties that can generate cash flow early on.

COMMERZ REAL

ABOUT COMMERZ REAL

Commerz Real is the asset manager for real asset investments within the Commerzbank Group, with over 50 years of international market experience. More than 800 employees manage assets worth approximately 34 billion euros from their headquarters in Wiesbaden as well as 17 other locations and branches both domestically and abroad. Commerz Real combines comprehensive expertise in asset management with broad structuring capabilities, creating a distinctive portfolio of real asset-focused fund products and bespoke financing solutions. Their fund range includes the open-ended real estate fund Hausinvest, the retail investor impact fund with a real asset focus, Klimavest, institutional investment products, as well as entrepreneurial investments under the CFB Invest brand, focusing on real estate and renewable energy. As the leasing service provider of the Commerzbank Group, Commerz Real also offers tailored real estate leasing concepts.

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OUTLOOK

PROMISING PROSPECTS FOR MICRO-LIVING

Demographic forecasts in Germany suggest that the micro-living asset class will become increasingly important, particularly in large cities and university towns. The demand for housing from students and young professionals is expected to grow, especially among international students and professionals looking for short- to medium-term accommodation. Housing is already scarce and has become significantly more expensive in recent years. In these tight housing markets, further significant rent increases are likely. Micro-apartments cater to a growing target group and can help alleviate the housing market by providing additional options.

The increasing specialisation and flexibility of operators is also promising, as they identify and cater to the needs of target groups beyond just providing housing. This includes central locations close to the workplaces, various lengths of stay, social and recreational opportunities, services that make everyday life easier and care services for elderly. This willingness to diversify offerings has been crucial in proving the resilience of the asset class during the Covid-19 pandemic. Demand has been higher than ever since the end of the pandemic restrictions.

These conditions make micro apartments an interesting investment product for capital investors. However, due to the limited supply of micro apartments, investment opportunities will remain scarce and primarily found in new developments. The shortage of available products and the high proportion of portfolio transactions have led to strong fluctuations in the investment volumes in recent years. The prime yield for micro-living is slightly higher than that of the traditional housing market due to high rent levels and existing operator risks. However, this risk premium has slightly diminished due to the high demand. In the future, a compression of yields is more likely, especially if the financing environment improves.

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