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The challenge of unlocking Germany's potential

*Participants in PERE's roundtable say a combination of public investment and regulatory reform could help to revive Germany's stalled economy and real estate market. But they also fear a fragile recovery could be derailed by global events. **Stuart Watson** reports*

The German economy and property markets have had a rough ride of late. But the turn of the year produced some tentative green shoots of recovery. GDP grew by only 0.2 percent in 2025, but that was an improvement following two years of contraction.

Meanwhile, a strong fourth-quarter total of €10.2 billion helped elevate real estate investment in the second half of the year to €18.6 billion, according to broker CBRE – €4.4 billion more than in the first six months.

The participants in *PERE's* Germany roundtable discussion – which took place over Zoom in late March – hope the fragile revival will not be cut short by the economic fallout from war in the Middle East.

But they accept that, in the face of surging oil prices that threaten to fuel inflation, the situation is volatile, particularly in the context of almost daily

fluctuations in the prospects for peace.

The situation is too insecure to sum up the war's impact on the real estate market in a neat soundbite, says Morten Olesen, senior director, head of investment housing and alternatives at manager Nuveen Real Estate. "There are so many different ways the market can go. There's a realistic scenario where interest rates will have to be hiked, when a few weeks ago most central banks around the world were expected to reduce them. But if we end up in a prolonged conflict, in a few months we might go back to expecting rate reductions as they look to fuel economies."

Meanwhile, Bernd Haggemüller, senior managing director, real estate at manager Ardiان, says investment decisions have already been impacted. "In uncertain times, you have to put an extra security margin into your underwriting, and this may hold back deals today."

Furthermore, he believes the negative effect will get worse the longer the conflict continues: "We have not experienced the full impact of what's going on in the Middle East, except when we fill up at the gas station. It could create further complexity that may cause markets to stall."

External shocks

The cost of debt financing could be impacted, suggests Claudine Burger, investment director, DACH at privately-owned manager Redevco. "We may see shifts in margins initially, and then if inflation really begins to feed through it could lead to higher base rates and affect fixed income yields. That can disrupt an entire investment strategy, if it is levered."

However, she adds that the market has been through a series of external shocks recently such that a "normal" market situation now seems like a distant memory. Meanwhile, managers



Claudine Burger

Investment director, DACH
Redevco

Burger joined Redevco two years ago to head the privately owned real estate manager's fund management business in the DACH region. Redevco is active across continental Europe and the UK, with a portfolio of around €10.5 billion AUM and a focus on retail parks, logistics, lending and mixed-use, as well as a residential strategy in the Netherlands.



Morten Olesen

Senior director, head of investment housing and alternatives, Germany, Nuveen Real Estate

Olesen leads acquisitions and investment management in the German residential and alternative asset sectors for Nuveen Real Estate. The firm, as of December 31, 2025, has around \$137 billion of real estate assets under management, with over \$25 billion in Europe. He joined Nuveen 18 months ago from opportunistic investor FFIRE Immobilienverwaltung AG.

René Dubois

Managing partner
Dentons

Dubois is managing partner of Dentons' Munich office and a member of the real estate and corporate/M&A practice groups. He advises on corporate law issues, M&A transactions, joint ventures and real estate transactions. The global law firm employs more than 5,900 lawyers working across 85 countries, 1,000 of whom specialize in real estate.



Bernd Haggemüller

Senior managing director,
real estate
Ardian

Based in Frankfurt, Haggemüller is senior managing director responsible for real estate in Germany and northern Europe at Ardian. The Paris-headquartered private equity manager started investing in European real estate 10 years ago, chiefly acquiring and upgrading office and mixed-use properties in European gateway cities, with approximately €4 billion under management.



Boris Perlet

Head of real estate asset management, Germany, Austria and Netherlands, PGIM

Based in Frankfurt, Perlet leads real estate asset management activities in the DACH region and the Netherlands for PGIM. The US-headquartered firm has \$216 billion of AUM globally across its debt and equity strategies.



have continued to raise investor capital that needs to be deployed in a “careful and strategic” way.

Boris Perlet, head of real estate asset management for Germany, Austria and Netherlands at manager PGIM, says that while getting transaction approval from investment committees might be “a bit more challenging,” his firm aims to go ahead with the deals in its pipeline. Moreover, he believes that most large, diversified asset managers have developed strategies over recent years that enable them to continue deploying capital despite volatile market conditions.

Other regions may be hurt worse than Europe, says Haggemüller, particularly Asia, which relies even more heavily than Germany on energy imports from the Middle East. Europe’s comparative stability may begin to

work to its advantage: “There may be some question marks over regions that appeared more dynamic and promising before the war started, and Europe and Germany will start to look a bit more attractive in comparison.”

René Dubois, managing partner at the Munich office of law firm Dentons, says he has heard that during the past year, a lot of capital has been reallocated from the US to Europe. “That money is still waiting because there haven’t been enough investment opportunities, and that is something that will probably continue for the rest of the year. So, on one side it is promising, but on the other it is still a challenge.”

‘Elephant in the room’

While there were some indications that German investment activity was gaining momentum at the end of last year,

CBRE figures show that transaction volume, which totaled €33 billion in 2025, was still 5 percent lower than the previous year. The participants blame a continued gap between buyer and seller expectations for dampening activity.

The issue of whether values have adjusted sufficiently to unlock dealflow remains the “elephant in the room,” says Haggemüller. “When you look at where liquidity and interest rates are, everybody understands that the market has to reprice. But since there are so few transactions, we have no real comparables, so valuers find it difficult to assess prices properly.”

Some other European real estate markets, notably the UK, have adjusted more swiftly. Whereas in Germany, open-end *Spezialfonds* – specialized investment vehicles for institutional investors – and pension funds still make up a large part of the investor base, and they can continue to harvest rental income because they are under less pressure to sell assets and realize losses than levered private equity funds, says Burger.

Germany also has a less transparent transaction market than some other European countries, adds Olesen.

“It is not a typical transaction environment,” says Dubois. The transactions his team have been working on are almost all special situations related to restructuring or insolvency, or where the owner or investor has decided to exit the German market entirely. “And when there is an opportunity to work on a more standard transaction, it is usually in a sector like food-anchored retail or residential.”

Perlet confirms the trend. Some of PGIM’s German transactions in 2025 were, in some respects, “special situations,” he says. “Either the seller needed to sell, or the investor was under some pressure to deploy money by the end of the year.”

Indeed, managers still need to deploy despite uncertainty over pricing

“It has become possible to calculate the cost of construction projects again. Residential developers are beginning to bring forward new projects”

MORTEN OLESEN
Nuveen Real Estate

Germany's regulation issue

The participants discuss over-regulation in the country's residential sector and whether government initiatives to cut red tape might begin to show results

Burger: Germany's debt-to-GDP ratio is at a reasonable level; the country is geographically in the middle of the continent, decentralized, has a highly educated population, and is historically strong in engineering and technology. We have big corporates. There is high potential, and that's why there is still plenty of investment appetite. But Germany isn't exploiting its full economic potential, and part of the reason for that is too much regulation.

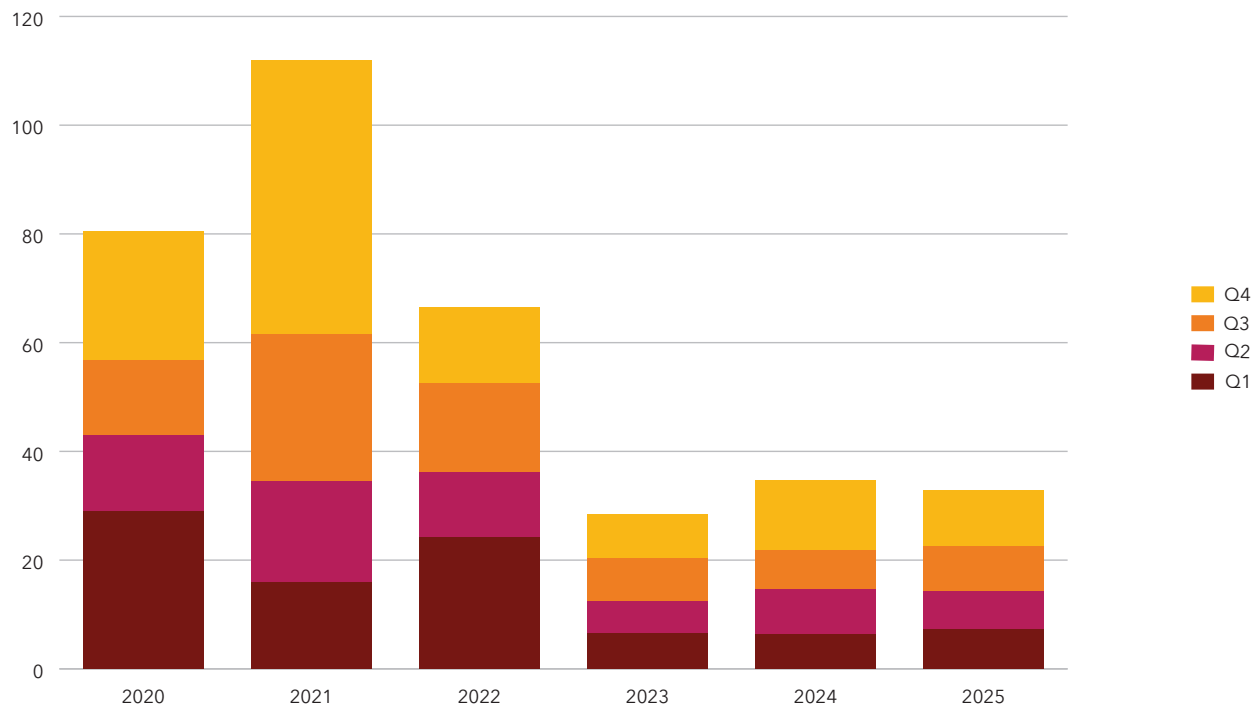
Dubois: Compared with other European countries, rents are still low, but the perception of German people is different, and there's a lot of pressure to find some kind of solution, at least for the top seven cities, to keep rents low. Berlin tried to find its own solution, which is no longer in effect because it didn't work. Whether a rent cap is introduced and how it functions will potentially have a huge impact on the residential sector.

Haggenmüller: Germany is already very highly

regulated, plus we have another layer of regulation from the EU. The very strong supply and demand imbalance on the residential side has led to renewed discussions about rent control. That's why we like to invest in residential and residential-related sectors where we are catering for the same customers, but which are not exposed to the risk of regulation, for example modern living, PBSA and self-storage.

Olesen: The Federal government has introduced a so-called 'Construction Turbo' law [which came into force in October] giving local authorities the ability to speed up approvals for residential development. Its success will depend on the decisions of municipalities and their appetite to grant approvals. But it is the first time in a while that we have seen regulation that is proactive and aims to boost construction. Measures like that could have a positive effect on the supply-demand imbalance and consequently alleviate the need for more restrictive regulation.

German investment activity remained subdued in 2025 but the market was gaining momentum in Q4 (€bn)



Source: CBRE Research

Analysis

and exit assumptions, says Haggemüller. “Our funds are not savings accounts. People entrust us with money to invest. We have to find the best possibility in each specific strategy and market and mitigate our risk as much as we can. It’s not our mandate to sit and wait.”

Consequently, Perlet is cautiously optimistic about the prospects for dealflow in the remainder of the year: “There are still opportunities out there, so I expect 2026 investment volume to be at least stable.”

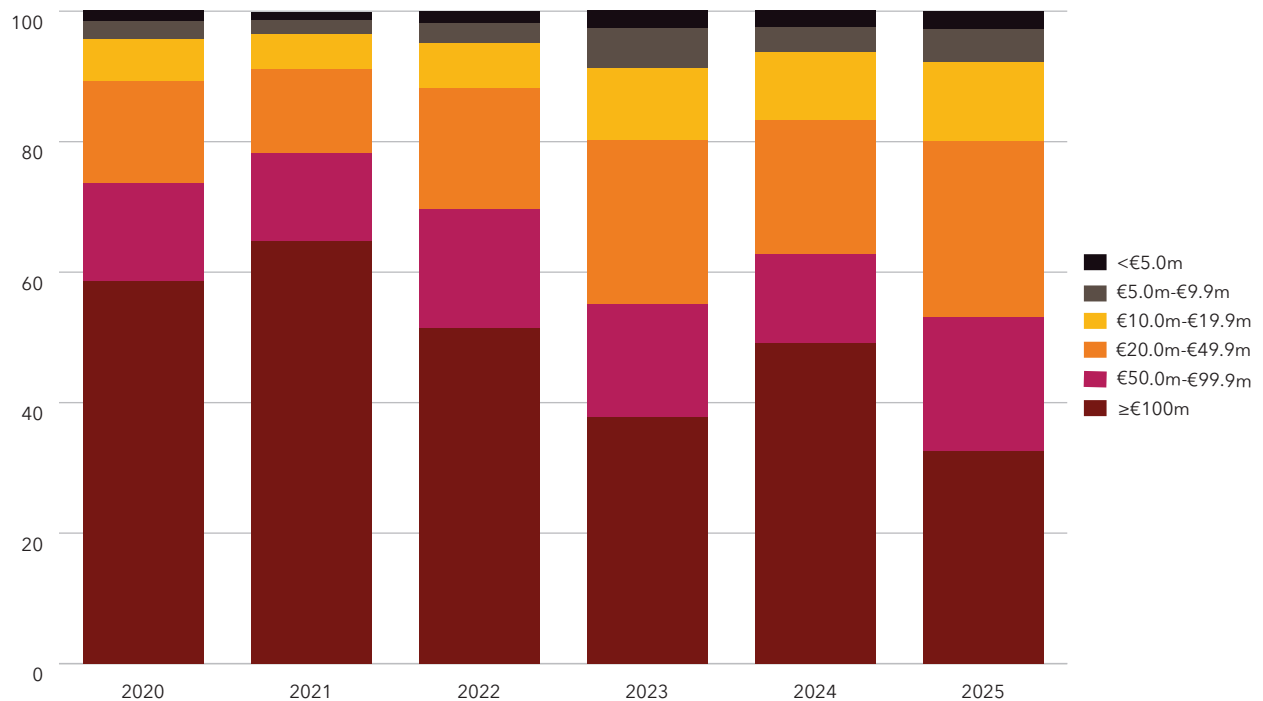
Lack of core capital

As the largest market in Europe, Germany is difficult to ignore for any pan-European investor, says Olesen. But over the past 12-18 months, transactions have trended toward the smaller side, CBRE data shows. Deals worth more than €100 million accounted for

“When there is an opportunity to work on a more standard transaction, it is usually in a sector like food-anchored retail or residential”

RENÉ DUBOIS
Dentons

A lack of core capital has contributed to shrinking transaction sizes in the German market (% of deal volume by size class)



Source: CBRE Research

“Since there are so few transactions, we have no real comparables, so valuers find it difficult to assess prices properly”

BERND HAGGENMÜLLER
Ardian

only 32.6 percent of transactions in Germany in 2025, compared with 49.2 percent the previous year.

Family offices with a longer investment horizon were very active, Olesen observes, whereas traditional core buyers like German pension funds and insurance companies were largely out of the market.

“For successor vehicles, German investment managers have been seeking capital outside of the German market, looking to foreign investors coming from North America, Scandinavia and Southeast Asia. But they have a different cost of capital to what we have been used to. Therefore, our exit calculations for value-add mandates are more conservative than two or three years ago,” he says.

There is quite a lot of “Anglo-Saxon capital” that would like to invest in

Germany, adds Haggemüller. “But, in line with Germany’s low risk profile, those investors are often unable to meet their aspirations for a 20 percent-plus IRR.”

While real estate investors still want exposure to Germany in their portfolios, the country faces more competition from other destinations for pan-European investors, Haggemüller adds. “Our reputation as a safe haven is not as strong as it used to be since Germany’s status as export champion of Europe has become more fragile. Spain and Italy are clearly competitive investment destinations. And for some, the UK, London especially, is the place to be.”

Burger agrees that opportunistic capital predominates right now. But she argues there is evidence Germany is still capable of drawing in some core

investment, particularly for assets in sectors benefiting from structural tailwinds. “We are also seeing a little bit more conservative capital from institutions that are interested in food-anchored retail, residential or PSBA strategies. That is a positive sign that investors believe that the economy is stable.”

Strategic vision

Perlet believes this is still a good time for pan-European funds to invest in Germany. But active asset management and a clear strategic vision are vital to convince investors to commit capital and to deliver attractive returns. “We believe strongly that asset types that are close to the people are still a good play – living and retail, urban logistics, data centers – everything that is necessity-driven,” he says.

Indeed, the residential sector has consolidated its position as the dominant German property class. CBRE data shows it represented the largest share of deal volume in both 2024 and 2025, although activity fell 5 percent year-on-year to €8.4 billion in 2025.

Financing housing development remains challenging, however. The German construction industry has been characterized by a lot of disruption in recent years, says Olesen, but land prices have now fallen to a “more realistic” level. Meanwhile, construction costs are still rising but at a more stable and manageable rate. “That means it has become possible to calculate the cost of construction projects again. Residential developers are beginning to bring forward new projects. But they don’t necessarily always have a building permit, and not every investment vehicle can take planning risk.”

Recovery in the German residential space is still at a very early stage, says Dubois. “The market participants are still trying to work out how the new normal works for them. The speed of the recovery is rather slow and there are

“Sectors including logistics and industrial outdoor storage will be positively affected by fiscal measures [to increase defense spending]”

CLAUDINE BURGER
Redevco

still complex questions to be answered.”

Local politicians in some cities, such as Munich, have pledged to speed up housing delivery to tackle an entrenched supply-demand imbalance. The market for subsidized housing has been very active in recent years, but it is currently difficult to identify an exit from projects, notes Olesen. “Typically, your exit would be a *Spezialfond* buying in a forward deal at 3 or 3.5 percent, and that market is just not there anymore.”

The office sector has experienced surprisingly strong rental growth, says Haggemüller, albeit only for the best-quality assets. “We are seeing record-breaking rents in the big cities for the right product, which has to be ESG-compliant, of course, but also modern and positioned smack in the middle of town.”

Office rental growth in Munich has far outstripped inflation, notes Dubois. “In the central business district, rents have reached €70 per square meter for top-tier offices. That has been a success story of the last 10 years.”

New or refurbished ESG-compliant offices that enable occupiers to be more energy efficient are achieving premium

“Asset types that are close to the people are still a good play – living and retail, urban logistics, data centers – everything that is necessity-driven”

BORIS PERLET
PGIM

Markets to watch

The managers on the panel pick the segments that offer the best prospects for real estate investment in Germany today



Burger:

- Food-anchored retail
- ESG-compliant office refurbishments
- City center mixed-use redevelopments



Haggenmüller:

- PBSA
- Self-storage
- Modern living
- Top-tier sustainable city center offices



Olesen:

- PBSA
- Urban residential
- Logistics (especially last mile)
- Food-anchored retail
- Repositioned high-street retail assets



Perlet:

- Converting offices to PBSA
- Urban logistics (especially ecommerce-related)
- Data centers

rents, says Burger. “That may be an even bigger benefit in these uncertain times when energy costs are high. It distinguishes those properties from non-refurbished buildings, and I think we will see the same in the residential sector.”

Participants agree secondary offices, by contrast, are increasingly problematic and best viewed as opportunities for repurposing. “We have a strategy that converts old office stock into PBSA and other use cases,” says Perlet.

Burger also favors transforming city center retail assets by adding other uses

to the mix such as hospitality, office and residential. “There are a lot of those opportunities around, but it is rare that you can find an asset at the right price that is suitable for conversion.”

Infrastructure spending

The German federal government is expected to further open its purse strings to meet its increased defense and infrastructure targets, and *PERE*’s roundtable participants expect this public spending to have a knock-on effect on property markets. “Sectors including logistics and industrial outdoor storage will be positively affected by those fiscal measures,” predicts Burger.

But Haggenmüller suggests that while higher infrastructure spending is sorely needed and will help to make the German economy stronger and more resilient, its impact will not be felt immediately. “It’s not like switching on a light. It takes time to spend these amounts of money.”

While fiscal loosening should help a subdued economy and property sector gain renewed momentum, the participants agree the opportunity could be

squandered unless it is accompanied by reforms to sharpen Germany’s competitive edge. Just as real estate investors need to articulate a clear strategic vision in uncertain times, politicians must also do so, argues Dubois. “It is currently hard to say what the clear vision is. Our government is struggling to define it.”

Infrastructure and defense spending will not be enough on their own without measures to address the German economy’s structural challenges, which include too much regulation and an insufficient gap between income from work and from welfare payments, argues Haggenmüller. He hopes politicians are starting to understand the country has been going in the wrong direction for too long, and are now starting to take action to correct some of the missteps, which he says could unlock Germany’s huge potential again.

“And if we only deregulate a bit, there are so many obstacles in our way today that a small turning of the wheel could have a big impact on the dynamics of the economy and of the country as a whole.” ■