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Equity Research Report N° 01/2025

Instone Real Estate Group: Brighter Days Ahead

Capitalizing on a Regenerating German Residential Market

EXECUTIVE SUMMARY

German Housing Market Dynamics
The German housing market is grappling with a severe supply-demand imbalance, as the German Economic Institute projects a staggering annual shortfall of 372,600 apartments in 2025. This presents a significant opportunity for established residential developers like Instone Real Estate.

Industry Realignment
Elevated interest rates have pressured the real estate sector, eliminating weaker developers and positioning resilient firms like Instone in a great spot to capitalize on market re-adjustments.

Instone's Market Position
Instone manages a €7 billion development pipeline in high-demand urban areas, achieving robust margins (23% average full-cycle target) and steady sales (128 units per quarter average over last two years).[1]

Financial Strength and Growth Prospects
With €252 million in cash and a solid balance sheet, Instone plans to acquire €1.5-2 billion in new projects over the next 12-18 months, reflecting its ability to exploit market opportunities.[2]

Regulatory Expertise and strong Networks
Instone has a proven track record of navigating Germany's complex building rights and permit processes. Additionally, Instone leverages its local networks and regulatory acumen.

KEY POINTS

Severe supply-demand imbalance favorable for German residential developers

Proven track record of operational prowess

Strong balance sheet facilitates exploitation of future opportunities

Significantly undervalued stock

1 Instone Results Presentation, Q1 2025. Instone Earnings Call Q1 2025.
2 Instone Earnings Call, Q3 2024.

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INSTONE REAL ESTATE IN NUMBERS

Metric	
Market capitalization	€389m
Free float	56.2%
Closing price as of 16.05.2025	€8.98
High/low (52 weeks)	10.24/7.15
Loan-to-cost	11.8%
Gross Development Value (GDV)	€7b
Gross profit margin (9M 2024)*	26.8%
Total number of units in pipeline	14,236
Thereof sold	6,264

* (Revenues – Project Cost) / Revenues.

COMPANY

Instone is a German residential development company listed on the Frankfurt Stock Exchange (XTRA: INS) with a current market capitalization of ~€389m. It specializes on urban development projects within metropolitan regions. The company serves a diverse demographic that includes young professionals, families, and seniors. Instone leverages two key product lines, Instone core product and its lower price-point housing line “nyoo”, to cater to different user groups and address the growing demand for affordable housing solutions. Instone core projects typically achieve slightly higher gross profit margins compared to the nyoo product line. This is attributed to their focus on prime locations, higher-quality finishes, and the ability to command premium prices.

The nyoo product line focuses on affordable, sustainable, and industrialized housing through modular construction and planning processes, offering several strategic benefits, catering to the high demand for affordable housing in the German market.

GERMAN HOUSING MARKET

The German housing market is experiencing supply challenges, primarily stemming from structural issues. The housing shortage is particularly prevalent in major urban areas like Berlin, Frankfurt, Munich, and Hamburg. According to the German Economic Institute, the projected shortfall in Germany is 372,600 apartments per year in 2025 and 257,400 apartments per year in Germany thereafter. This imbalance led to sharp increases in rents and property prices over the past 15 years.

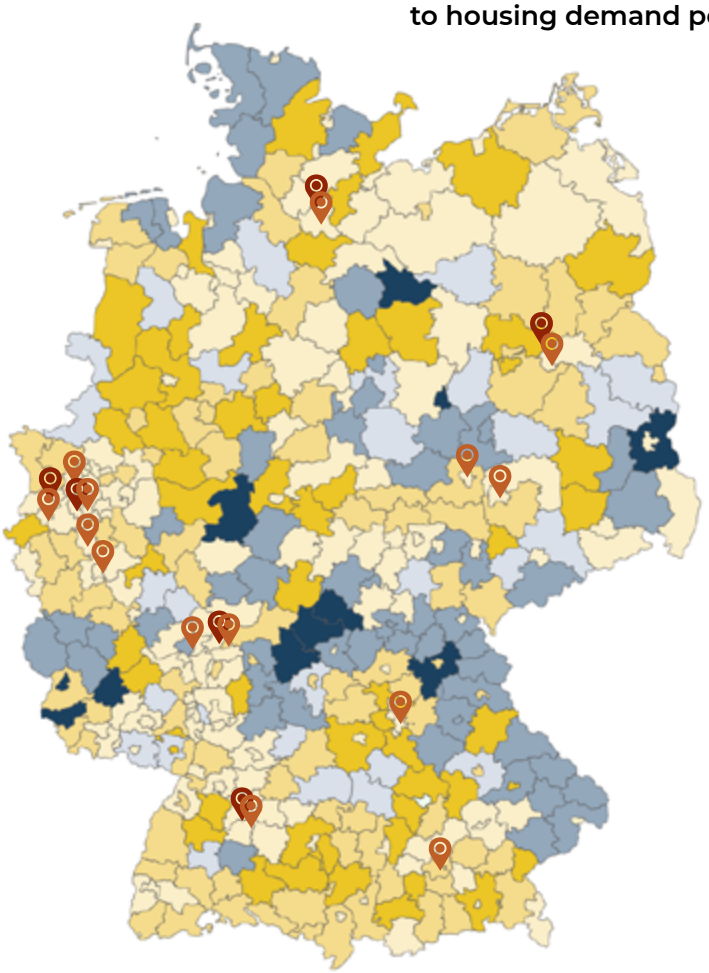
Additionally, demand for housing is expected to grow, fueled by factors such as urbanization, migration, and an increase in single-person households. Climate protection initiatives compound the pressures on the housing market. The energy efficient renovation of existing buildings, necessary to meet climate targets, often leads to increased rents through mechanisms such as the 'modernization levy'.

Germany's drastic supply-demand imbalance fuels the urgent need for both new-build upscale- as well as affordable housing. Affordability has become a growing societal challenge, making housing policy a central political topic.

For Instone, the challenges in the housing market present a significant opportunity, positioning the company as a key player in addressing the nation's housing needs.

INSTONE ADDRESSES THE MOST OVERHEATED GERMAN MARKETS

Ratio of completions per year (2021-2023) to housing demand per year (2021-2025)



Source: IW Cologne, Instone Company Disclosure. Only one pin per administrative district. Several projects in one administrative district possible. For a complete list, please refer to the Instone disclosure.

HIGH QUALITY DEVELOPMENT PIPELINE FOCUSES ON RESILIENT MARKETS

Instone maintains a robust development pipeline comprising 43 projects with an expected gross development value (GDV) of approximately €7 billion and a targeted gross profit margin of around 23% over the full cycle. Additionally, Instone is involved in four joint venture projects, contributing an expected ~€630 million in GDV.[3]

As of March 31, 2025, most of the projected total revenue volume - approximately 96% - is concentrated in Germany‘s key metropolitan regions: Berlin, Dusseldorf, Frankfurt am Main, Hamburg, Cologne/Bonn, Leipzig, Munich, Nuremberg, and Stuttgart. The remaining 4% are derived from other appealing medium-sized cities. Instone offers an attractive product in high quality locations, positioning itself as a leading developer in Germany´s most sought-after urban markets.

After several quarters of depressed selling activity as a consequence to the interest rate shock, Instone’s sales to both private buy-to-let investors and owner-occupiers have reportedly returned to levels seen prior to the shock and are showing sound momentum.[4]

Political incentives, such as those introduced under the ‘Growth Opportunities Act’, appear to be stimulating demand among both buyer groups, helping to sustain high sales levels. Moreover, the newly elected German Bundestag is expected to adopt a more market-oriented approach, which is likely to benefit residential real estate construction, and thereby players like Instone.

CONSTRUCTION COST ADVANTAGE & DISCIPLINED ACQUISITIONS

Instone achieves attractive project margins, securing a competitive advantage through two key strategies:

1. Efficient cost management
To achieve its attractive margins, Instone requires low and relatively stable project costs. The low costs are accomplished through modular designs of projects combined with strong in-house construction expertise. Instone operates as an ‘in-house general contractor’, eliminating an intermediate layer in the construction chain. This model allows the company to directly contract individual trades in a targeted and cost-efficient manner, thereby reducing costs.

It is worth highlighting that Instone operates a staff-intensive business model, employing approximately 336 full-time equivalents, largely due to its vertically integrated structure.[5] However, this approach is essential for maintaining control over the value chain, and the company‘s expertise, along with its strong local networks, necessitates the size of its workforce.

3 Instone Results Presentation, Q1 2025.
4 Instone Earnings Call, Q1 2025.
5 Instone Financial Report, Q1 2025.

2. Disciplined property acquisition

Instone employs a highly disciplined approach to property acquisition, involving multiple stages of cost evaluation to ensure financial viability. The company prioritizes relatively low acquisition costs for land and has developed expertise in acquiring, converting, and repurposing land for residential use. This allows Instone to buy land below regular residential land market price, reducing acquisition costs further. AVENTOS research suggests that since its IPO, Instone has resold only three out of 71 projects without initiating construction.

INSTONE'S COMPETITIVE CONSTRUCTION COST EDGE

Project Calculation	**BKI***	**Instone**
Location	Frankfurt am Main	
Land area	10,000 m²	
Floor area ratio**	1.5	
Useable area	11,250 m²	
Land price	€2,450/m²	
Total acquisition costs	€26,850,000	
Construction costs - high standard (Cost group 200+700)* **	**€4,015/m²**	**€3,610/m²**
Total construction costs	€45,172,890	€40,617,500
Total costs	€72,122,890	€67,567,500
Sales price****	€7,800/m²	€7,800/m²
Total sales volume	€87,750,000	€87,750,000
Gross profit margin	18%	23%

* Building Cost Information Center of German Chambers of Architects.

** Calculation of average floor area ratio for Instone projects with available information.

*** For BKI number construction cost adjusted with regional factor.

**** Instone's average sales price in Frankfurt am Main based on Q3 '24 disclosure & median purchase price for condominiums based on JLL H1 2024 Frankfurt am Main market report.

The table above presents a comparative analysis of construction costs for a residential development project in Frankfurt am Main. It assumes identical land acquisition costs for both scenarios and contrasts the construction costs derived from the Building Cost Information Center of German Chambers of Architects (BKI) with those calculated based on Instone's communicated full-cycle average project margin of 23%.[6] The BKI derives the costs from already realized projects in its database and is a good indication for construction pricing in Germany. The calculation suggests that Instone's construction costs are significantly below the BKI benchmark, indicating a cost advantage. This cost efficiency strengthens Instone's competitive position in the residential development sector, allowing for increased profitability and greater flexibility in project execution.

6 Instone Earnings Call, Q1 2025.

A STRONG BALANCE SHEET WILL ACCELERATE INSTONE'S GROWTH

The company maintains a very low net debt-to-EBITDA ratio standing at a mere 1.7x, significantly below the peer average of 9.3x. Net debt has decreased by 68% since the end of 2019, from just under €480 million to currently €154 million. This strong financial position is bolstered by approximately €253 million in cash and cash equivalents, ensuring robust liquidity.[7]

By refraining from acquiring new projects from beginning of 2022 until mid-2024 and prioritizing liquidity management, Instone has effectively navigated the challenges of recent years. This strategic financial discipline has proved to be the correct approach. It prepared Instone to capitalize on attractive investment opportunities as the market adjusts to new conditions, while competitors (e.g., Project Immobilien, Euroboden, CG Group or Imfarr) are facing distress due to a high leverage and low liquidity.[8] Looking ahead, Instone has set an acquisition target for the next 12–18 months of €1.5 to €2 billion GDV, leveraging its strong financial position to drive growth in a recalibrated market landscape. Instone currently has projects with a gross development value (GDV) of €500 million under exclusivity in their acquisition pipeline.[9]

COMPETENT MANAGEMENT AND STRONG OPERATIONS

Instone's management demonstrates extensive expertise in real estate and project development, proven across market cycles. CEO Kruno Crepulja leads the company since 2008, starting with predecessor Formart, while COO Andreas Gräf is on board since 2007.

The leadership team has successfully steered the company through challenging economic conditions, particularly during the crisis years when many competitors struggled or went bankrupt. Instone´s management proved itself capable in handling these difficult years, showcasing Instone´s resilience and positioning the company for growth at the beginning of the new cycle.

Navigating Germany's complex building rights and permit processes offers significant value for skilled developers. Instone excels in addressing the challenges, leveraging experience in converting land for residential use and a strong network across nine locations in Germany. By working closely with local authorities and stakeholders, the company effectively transforms former commercial, allotment, or brownfield areas, thereby demonstrating leadership in sustainable, community-oriented development.

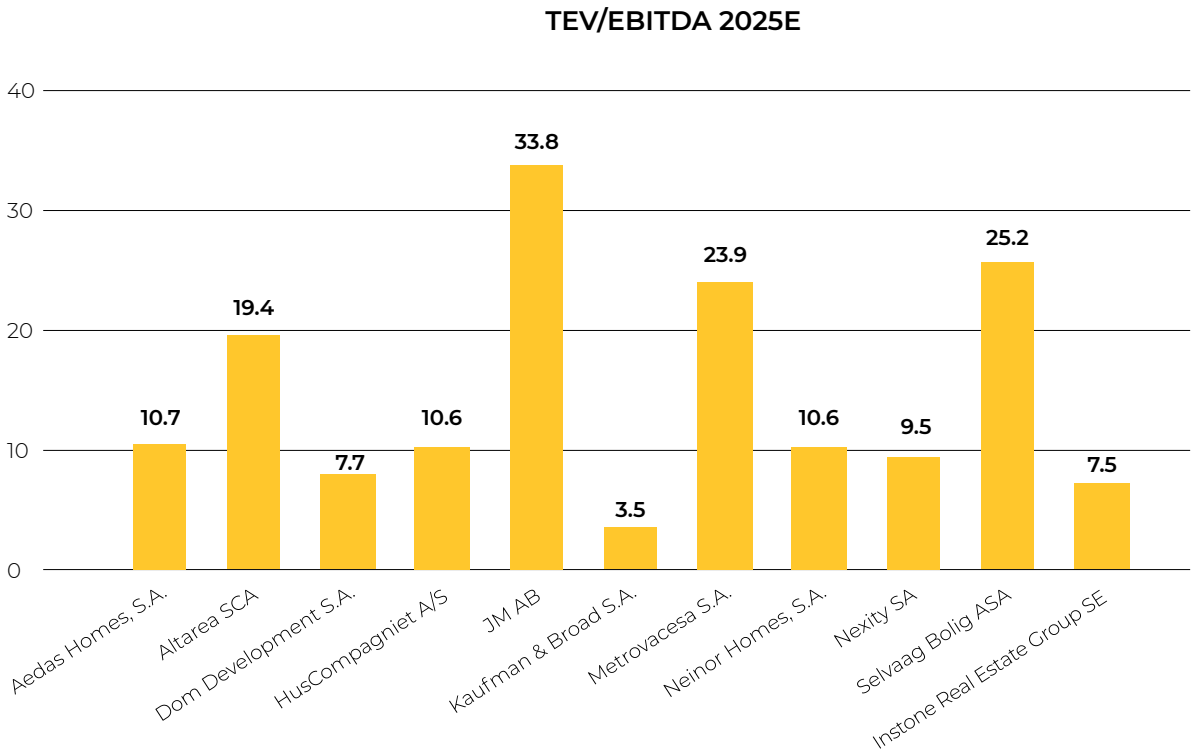
Following criticism of its overhead costs, Instone has reduced administrative expenses since 2022 without compromising its local networks or operational efficiency. Its team of skilled specialists ensures seamless vertical integration and supports the company's robust development pipeline.

7 Instone Results Presentation, Q1 2025. Reporting excludes €160 million restricted cash and €113 million financial debt in connection with Project Westville client related subsidized KfW loan.

8 Capital (2024): Pleitewelle: Warum Immobilien-Projektentwickler in der Krise stecken; Handelsblatt (2024): Immobilien-Projektentwickler Imfarr ist pleite.

9 Instone Earnings Call, Q1 2025.

PRICED AT A COMPELLING VALUATION



Instone stands out as the sole major and stable publicly listed residential developer in Germany. Therefore, comparing Instone to the 10 residential developers included in EPRA's Developer Index located in continental Europe is the most appropriate approach.

Instone is currently trading at a significant discount relative to its peers, with an Enterprise Value/Forward 2025E EBITDA multiple of 7.5x, compared to the peer group average of 15.5x, based on data from S&P Capital IQ Pro. Valued in line with its peers at a 15.5x multiple, Instone would trade at €18.7 per share, representing a potential upside of 108% from the current share price.

DISCOUNTED CASH FLOW CALCULATION

In addition, a back-of-the-envelope Discounted Cash Flow (DCF) analysis of Instone, based on highly conservative assumptions, suggests significant undervaluation. The model assumes the consensus EBIT estimate of €66 million in 2025 and €88 million in 2026, followed by zero growth in subsequent years and the average German corporate tax rate of 30%. Cash flows are then discounted with a weighted average cost of capital (WACC) of 5.8%.[10]

This concludes an Enterprise Value of €1.1 billion and an equity value of €978 million and translates into a per share value of close to EUR 22.5, implying an upside of 151% from current levels. Even under highly conservative assumptions, the valuation underscores Instone's stock's strong upside, highlighting a disconnect between its intrinsic value and market price.

10 Derived from a cost of debt of 3.9% and a cost of equity of 7.1% - calculated using the German 10-year bonds 2.7% yield as a risk-free rate, Instone´s beta of 1.02 (Source: S&P Capital IQ Pro) and an equity risk premium of 4.3% sourced from Aswath Damodaran's NYU Stern website.

RECOMMENDATIONS TO MANAGEMENT: STEPS TO ACCELERATE SHAREHOLDER VALUE CREATION

The following fields of action for the company's management could accelerate the unlocking of Instone's full value.

Detailed project information & capital market communication
To improve transparency on the project level, more detailed project information such as purchase price of land, funds required to complete projects or the state of ongoing projects including status of building right applications would facilitate understanding of projects for outsiders.

Emphasize Instone's role in solving Germany's housing shortage
Instone operates at the heart of one of Germany's most pressing societal challenges – the housing crisis. Germany's housing market faces a critical undersupply, creating challenges for society and opportunities for companies that provide real solutions. Instone stands at the forefront of the solution to this issue, yet this strategic advantage has not been fully leveraged in the company's communications. By actively positioning itself as a socially responsible developer working to ease the housing shortage, Instone could strengthen stakeholder confidence.

Openness regarding strategic alternatives
Management should remain receptive to opportunities that could accelerate shareholder value creation. While Instone is well-equipped to continue its trajectory independently, possible alternatives – such as a public-to-private transaction or industry consolidation – could accelerate value enhancement and should be evaluated as part of a broader strategic review.

SUMMARY

Instone stands out as an attractive investment opportunity in Germany's dynamic residential housing market, where structural challenges like housing shortages and climate-related demands create substantial opportunities for growth. With a robust €7 billion development pipeline focused on high-demand urban markets, Instone consistently delivers superior margins (24.4% average for last six quarters) and steady sales, even amid macroeconomic uncertainties.

Instone benefits from strategic advantages such as efficient cost management, disciplined property acquisitions, and a robust financial position, with low leverage, €252 million in cash, and prudent capital allocation. Combined with its expertise in navigating regulatory complexities and converting land for residential use, the company is well-positioned to capitalize on Germany's persistent supply-demand imbalance, ensuring long-term stability and growth potential once the German residential market takes off again.

In conclusion, Instone's resilience, strong market positioning, and deep local market expertise makes it an excellent investment choice for those seeking exposure to Germany's attractive residential real estate sector.

APPENDIX

Top 5 Shareholders as of March 31, 2025

Shareholder	%
Activum	25.95%
DAMAC Properties	10.04%
FMR	7.41%
Ranger Global	4.04%
Helikon	3.68%

Source: Peer-Group (as of 16.05.2025)

Peer-Group (as of 16.05.2025)

Company	Country	P/E 2025E	TEV/EBITDA 2025E	Net Debt/ EBITDA
Aedas Homes, S.A.	Spain	11.7	10.7	9.2
Altarea SCA	France	16.3	19.4	6.7
Dom Development S.A.	Poland	9.5	7.7	0.3
HusCompagniet A/S	Denmark	26.2	10.6	2.2
JM AB	Sweden	27.3	33.8	19.1
Kaufman & Broad S.A.	France	12.5	3.5	NM
Metrovacesa S.A.	Spain	34.4	23.9	1.4
Neinor Homes, S.A.	Spain	13.3	10.6	1.3
Nexity SA	France	NM	9.5	29.4
Selvaag Bolig ASA	Norway	23.7	25.2	14.3
Instone Real Estate Group SE	Germany	12.3	7.5	1.7

Source: S&P Capital IQ Pro.

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