BNP PARIBAS REAL ESTATE

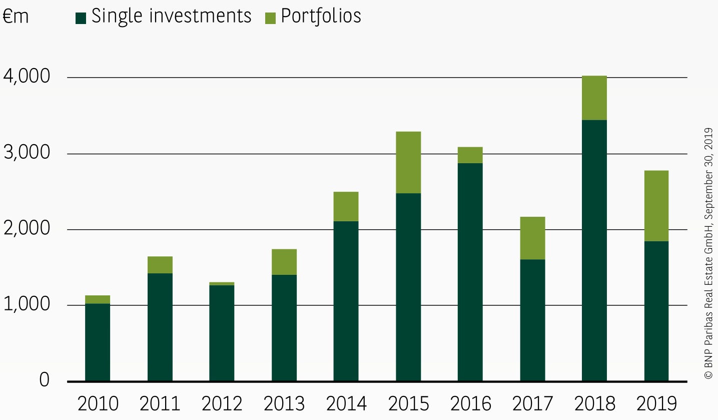
Real Estate for a changing world

RESEARCH

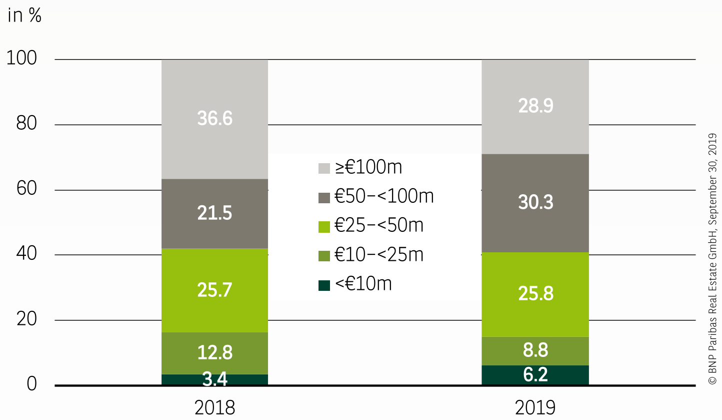
At a Glance Q3 2019

INVESTMENT MARKET HAMBURG

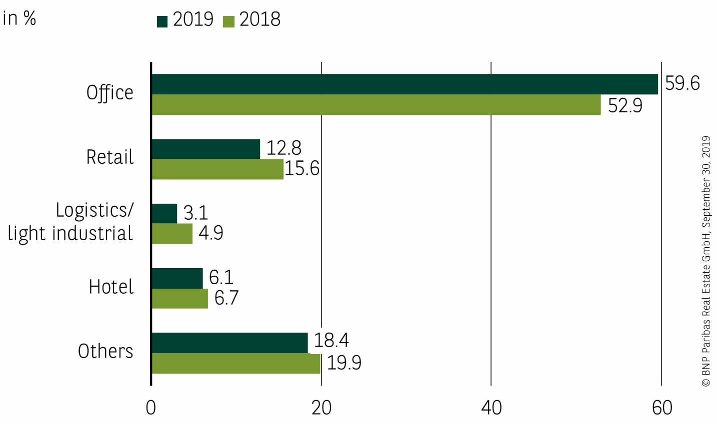
Investment volume Q1-3



Investments by € category Q1-3



Investments by type of property Q1-3



STRONG THIRD QUARTER STIMULATES THE MARKET

The Hamburg investment market recorded a transaction volume of €2.78 billion in the first nine months of the year, which is around 31% below the exceptional result of the previous year. However, this figure is put into perspective when looking at the 10-year average, which was exceeded by more than 17%. After a very subdued start to the year, the third quarter made a decisive contribution to this, accounting for €1.64 billion or more than 59% of the total. The sale of the "Millennium Portfolio" to Commerz Real was not insignificant for this. The former real estate portfolio of Generali Lebensversicherung also included various properties in the Hanseatic city. As a result, the share of properties sold as part of portfolio transactions rose to a good 33%, which corresponds to a disproportionately high value. The largest single deal was the sale of the 15-storey office property "Edge HafenCity", which Allianz secured as part of an off-market forward deal. As a result of the numerous high-priced transactions, the average volume per property of €32 million is the second highest value of the past ten years after 2018 (€38 million).

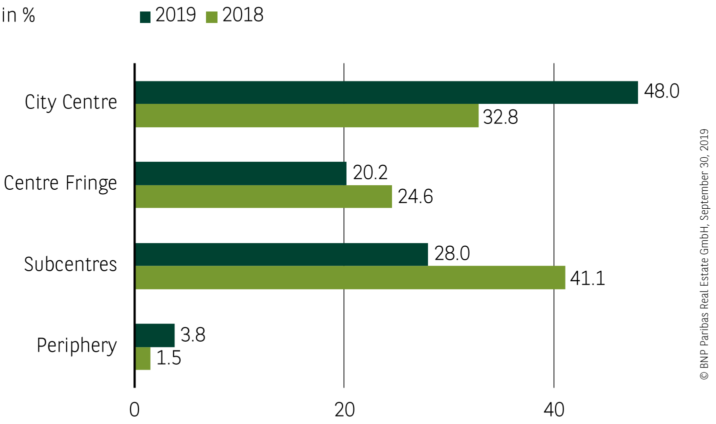
LACK OF SUPPLY: LESS LARGE DEALS

In absolute terms, only investments below a volume of €10 million recorded growth (+28%). However, they represent the smallest market segment in the total market with a share of 6%. Driven by the lively third quarter, most of the market activity took place above 25 million. The largest share of the result, at more than 30%, was generated in the €50 to €100 million range. The main reason for the lower overall result was a decline in volume in the three-digit million range (-45%). The shortage of supply is particularly noticeable in this size category.

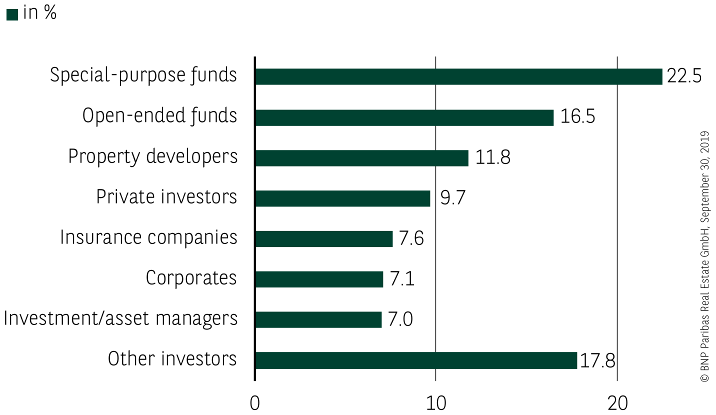
INVESTORS' DARLING: FOCUS ON OFFICE PROPERTIES

Office properties dominate the investment market in the Elbe metropolis not least due to the sales of the Millennium Portfolio, Edge HafenCity or the Economic Quarter in City South. At 60% of the total transaction volume, their share is around 8 percentage points above the long-term average. Otherwise, all other asset classes have lost shares compared to the previous year, although the order has remained identical. Retail properties come in second with just under 13%, while hotel (6%) and logistics investments (3%) achieve single-digit results. At over 18%, the category "Other" again accounts for a not insignificant share.

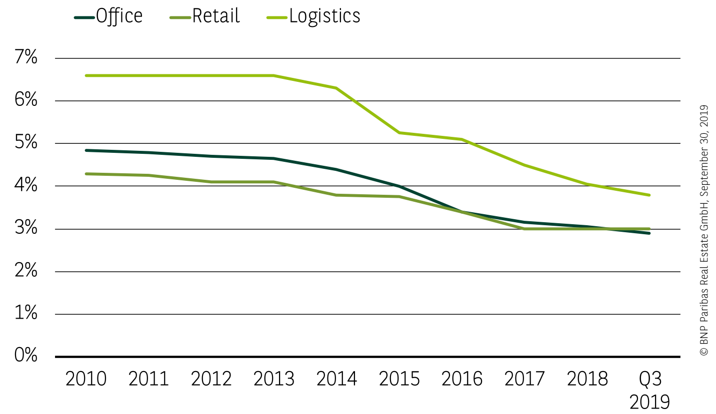
Investments by location Q1-3



Investments by buyer group Q1-3 2019



Net prime yields by type of property



CITY CENTRE IS AGAIN THE PLACE TO BE

While in the previous year the insufficient supply of large-volume core properties in central locations was clearly reflected in the distribution, twelve months later a completely reversed picture emerges: at 48%, almost half of the volume was implemented in the City Centre. Even in absolute terms, this is a slight increase of 1%. On the other hand, investment volume in the Subcentres fell significantly (-53%), which is also reflected in the share of 28%. HanseMerkur, which acquired the new headquarters of the reinsurer Euler Hermes in Bahrenfeld from Quantum, concluded the most important transaction here.

SPECIAL-PURPOSE FUNDS INVEST ACROSS THE BOARD

On the buyer side, special-purpose funds were responsible for some of the largest deals and secured first place with a good 22.5%. Compared to other investors, however, open-ended funds were particularly strongly invested in the portfolio segment. Among other things, Commerz Real pushed this group of buyers to second place (16.5%) with the acquisition of the Millennium Portfolio. Property developers also achieved a double-digit result with just under 12%, while in absolute terms with almost €330 million they achieved their best result ever registered. Foreign investors account for 24% of the Hamburg investment market, which is significantly underrepresented compared to the national average (36%).

YIELD COMPRESSION CONTINUES

The yield compression in the Hanseatic city continues, which is not surprising given the ongoing expansive monetary policy, the resulting lack of investment alternatives and the inadequate product range. In the past twelve months, the prime yield for office properties has fallen by 25 basis points and is currently listed below the 3% mark at 2.90%. On the other hand, the stability of retail properties has been sustained for more than two years now: The ongoing structural change in the retail sector is certainly the main reason why the net prime yield in top high street locations remains unchanged at 3.00%. The compression in returns was once again most pronounced in the logistics sector, where the value fell by 40 basis points to 3.80%.

EXCITING FINAL QUARTER EXPECTED

Due to the generally very positive mood on the Hamburg investment market and several deals that are about to be signed, a lively final quarter can be expected, which should lead to a good overall result. However, it is unlikely that the extraordinary result of the previous year can be matched against the background of the insufficient supply. A further decline in yields cannot be ruled out due to the increased demand pressure and historically favourable financing conditions.

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