BNP PARIBAS REAL ESTATE

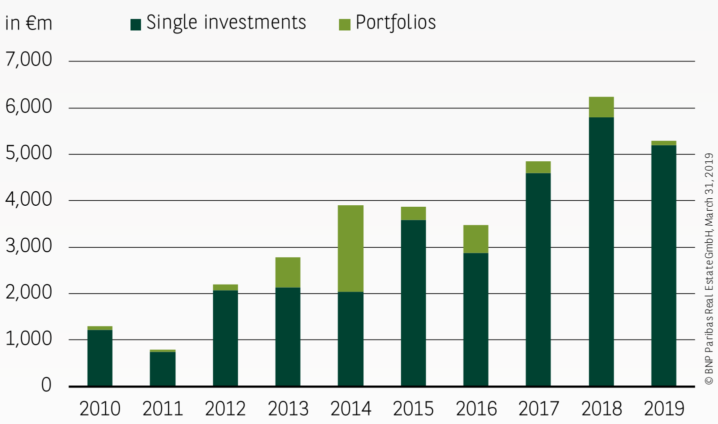
Real Estate for a changing world

RESEARCH

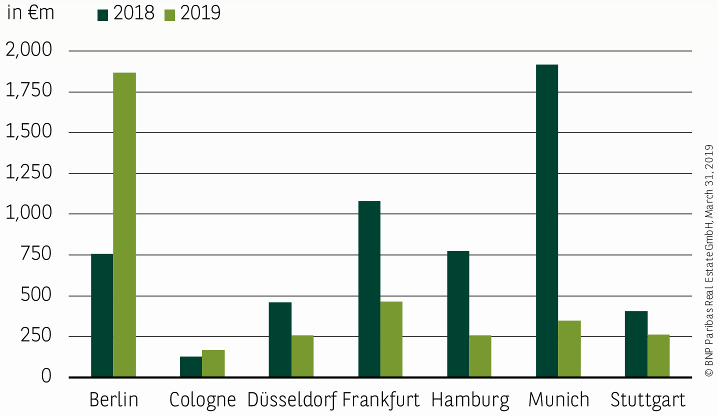
At a Glance Q1 2019

OFFICE INVESTMENT MARKET GERMANY

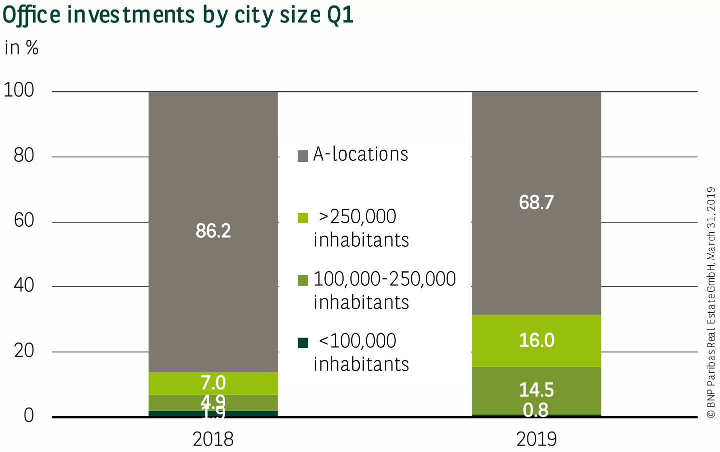
Office investments in Germany Q1



Office investments in the A-locations Q1



Office investments by city size Q1



LACK OF SUPPLY SLOWS DOWN INVESTMENT TURNOVER

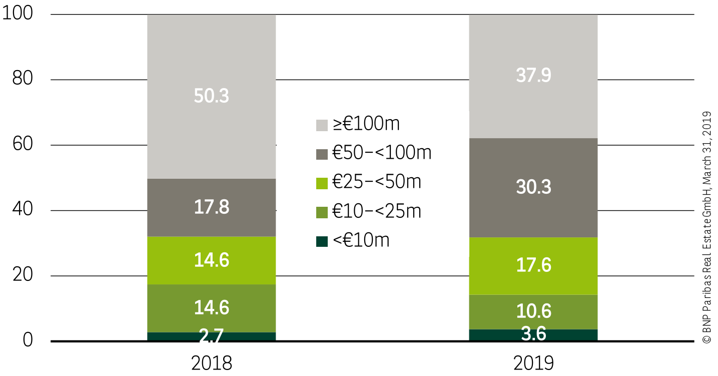
Office properties remain high on the shopping list of investors. With a nationwide transaction volume of 5.3 billion €, the third best result ever was achieved in the first quarter. However, investor demand would have been sufficient to generate a significantly higher volume if more properties had been available. The lack of supply is therefore also the reason why the record turnover set last year was missed by 15 %. Nevertheless, office real estate contributes almost every second euro to commercial investment turnover and thus remains by far the most important asset class. Once again, the market was dominated by individual deals, which achieved their second-best result ever with just under 5.2 billion €. Package sales, on the other hand, only reach a good 100 million €, which corresponds to one of the weakest annual starts of the last ten years - even though buyers are desperately looking for large-volume portfolios. Here, too, there is a shortage of product. Among the most important deals are the sale of Oberbaumcity, the Pressehaus on Alexanderplatz and the Spreeturm, all in Berlin. In the other major cities, only a few transactions in the three-digit million range were recorded in the first quarter.

A-LOCATIONS WITH SIGNIFICANT DECLINE IN TURNOVER

As expected, the German A-locations (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, Stuttgart) were unable to match the record set in the previous year. At a good 3.62 billion €, their volume is a good third lower. Berlin, however, bucked the trend and set a new all-time high of 1.87 billion €. The other major metropolises, on the other hand, felt the effects of the year-end rally of the previous year, when many large transactions were concluded. The current lack of product in the large-volume segment has limited the results. This applies in particular to Frankfurt (464 million €), Hamburg (258 million €) and Munich (346 million €). But Stuttgart also had a comparatively weak start with only 261 million €. Düsseldorf got off to a rather moderate start to the year with 258 million €, while Cologne (169 million €) such as Berlin was able to grow, albeit at a considerably lower level. Turnover outside the A-cities more than doubled to a good 1.6 billion €. The decisive factor for this is a certain evasive movement on the part of investors due to the lack of product in the A-locations on the one hand, but on the other hand also a currently corresponding offer in some attractive B-cities, which is not available in this form every year.

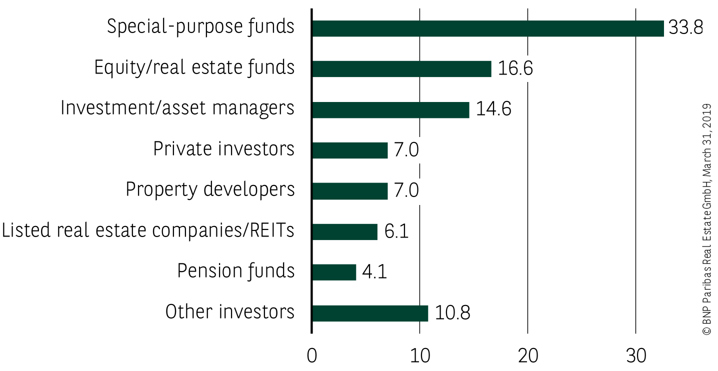
Office investments by € category Q1

in %

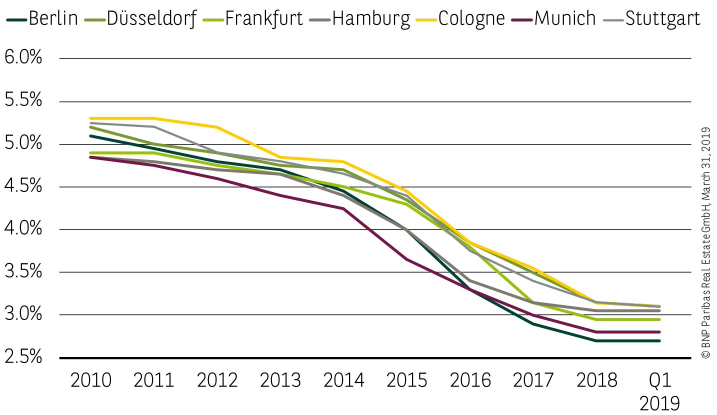


Office investments by buyer group Q1

in %



Development of office net prime yields



BROADER DISTRIBUTION ACROSS THE SIZE CLASSES

The fact that the decline of the investment volume is attributable to an insufficient supply in the large-volume segment can be seen from the distribution of investments across the size classes. A good 1.1 billion € less was invested in the three-digit million range, whereas the total volume was only around 940 million € lower. As a result, other segments were able to grow noticeably in some cases. These include above all sales between 50 and 100 million €, which contribute around 500 million € more than in the first quarter of 2018. However, the categories 25 to 50 million € and smaller transactions up to 10 million € were also able to increase their absolute investment turnover. This result underscores the overall very lively demand, which could not be fully met, especially in the large-volume segment.

SPECIAL-PURPOSE FUNDS CLEARLY AT THE FOREFRONT

Special-purpose funds, which contribute a good third, have by far invested the most. These funds are backed up by a variety of investors who often use this vehicle for indirect investments. Equity/real estate funds rank second at almost 17 %. The leading trio is completed by investment managers, whose share amounts to just under 15 %. All other buyer groups are in the single-digit range, such as private investors and property developers, who each account for 7 %. Overall, office properties are attracting a great deal of interest from a wide range of investors, which is also reflected in the strong commitment of special-purpose funds and investment managers who act for a wide variety of investors.

PRIME YIELDS IN SOME CASES SLIGHTLY LOWER

The limited range of premium properties on offer, combined with the high level of buyer interest, keeps competition in the core segment high. Against this backdrop, it is not surprising that in some cases prime yields have once again fallen slightly. Outside the four top locations, they fell by a further five basis points in Q1, so that they can now be set at 3.10 % in Düsseldorf, Cologne and Stuttgart. Berlin remains the most expensive location with 2.70 %, followed by Munich with 2.80 %. In Frankfurt (2.95 %) and Hamburg (3.05 %), net prime yields were also stable.

PERSPECTIVES

The results of the first three months confirm the forecast made at the beginning of the year that an above-average volume can also be expected in 2019. Continued low interest rates, limited investment alternatives, functioning occupier markets and Germany's proven stability are the cornerstones of what remains an attractive environment. Against this background, a transaction volume of between 20 and 25 billion € appears realistic for the year as a whole.

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