BNP PARIBAS REAL ESTATE

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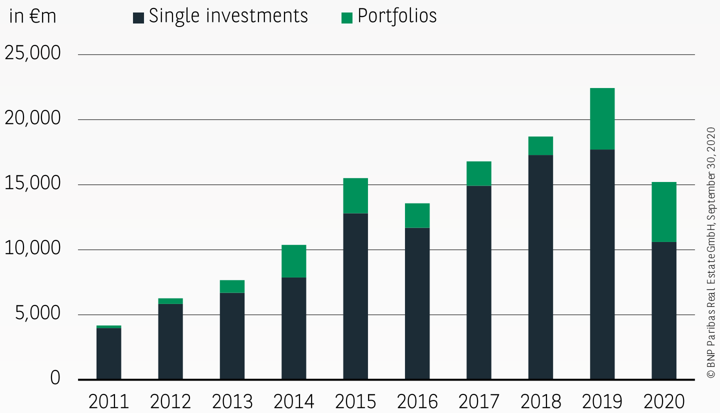
RESEARCH

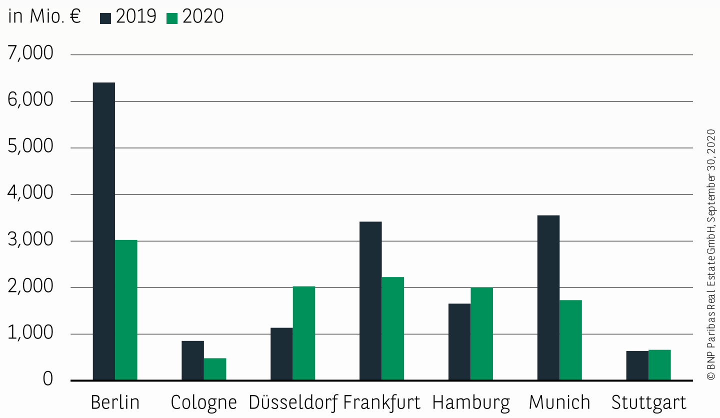
At a Glance Q3 2020

OFFICE INVESTMENT MARKET GERMANY

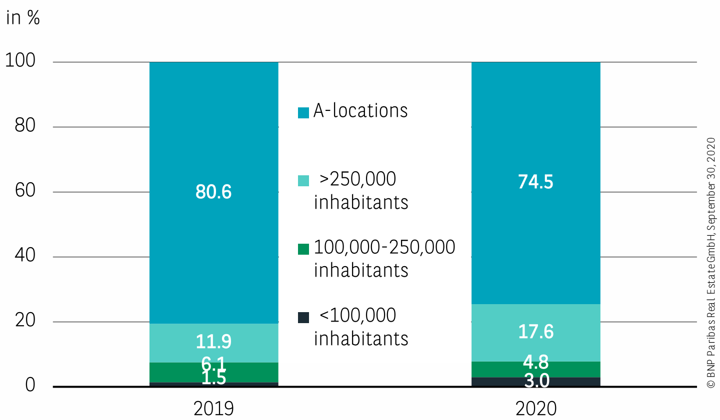
Office investments in Germany Q1-3



Office investments in the A-locations Q1-3



Office investments by city size Q1-3



STILL THE MOST IMPORTANT ASSET CLASS

Office investments are still in great demand. Despite the currently expected significant decline in take-up on the letting markets, €15.2 billion has been invested in German office real estate in the year to date, almost €5 billion of which was generated in the third quarter. Although the record result from the previous year was missed by 32%, the figure is still a good 16% above the ten-year average. Core properties in particular, with long lease contracts from tenants with strong credit ratings, continue to be highly popular with investors. Even current discussions about a future decline in demand for office space due to rising home office levels hardly change the fundamentally positive mood.

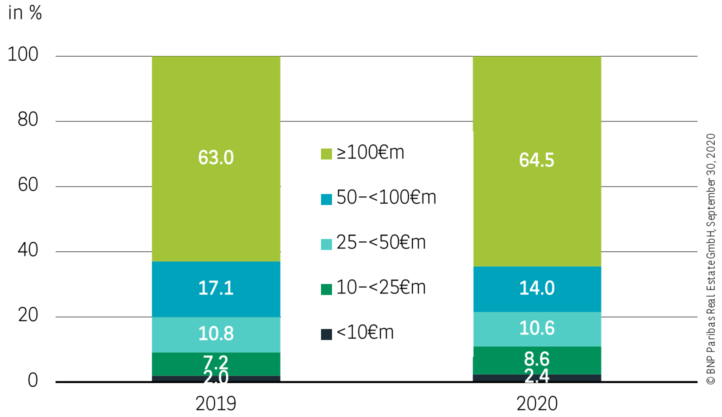
BERLIN LEADS THE WAY BY A WIDE MARGIN

German A-locations continue to dominate the market for office investments. By the end of September, almost €12 billion or 80% of the investment volume had been invested in the markets of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart. The German capital is once again by a wide margin at the top of the league with sales of just over € 3 billion, albeit 53% short of the spectacular result of the previous year. Drivers of the Berlin turnover were primarily the TLG acquisition by Aroundtown in the first quarter and the core office properties of the Medicus portfolio brokered by BNPPRE, which Union Investment Real Estate acquired from Hines in the third quarter. Although Frankfurt is down almost 35% compared to 2019, the financial metropolis has managed to move into second place with a volume of €2.2 billion. Against the trend, Düsseldorf and Hamburg show a strong performance with a noticeable increase in office investments compared to the previous year. A record result of € 2 billion is reported for Düsseldorf at the end of Q3 (a good 78% above the previous year's result), and the Hanseatic City of Hamburg reports the third-highest result in the past 10 years (a good € 2 billion or +21%). In Munich, the supply shortage is responsible for the comparatively weak result of a good € 1.7 billion (-51 % compared to Q1-Q3 2019).

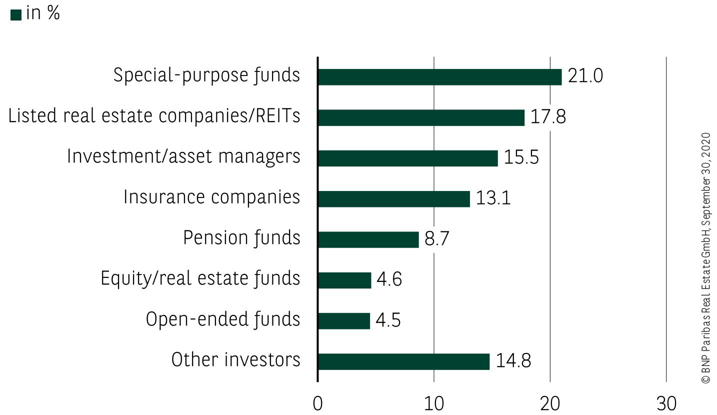
B-CITIES ATTRACTIVE EVEN IN TURBULENT TIMES

The cities with more than 250,000 inhabitants underline their attractiveness as an investment location even in more turbulent times, achieving a market share of almost 18% in terms of individual deals. The most recent sales of "The Q" in Nuremberg and the Karstadt headquarters in Essen have been particularly significant.

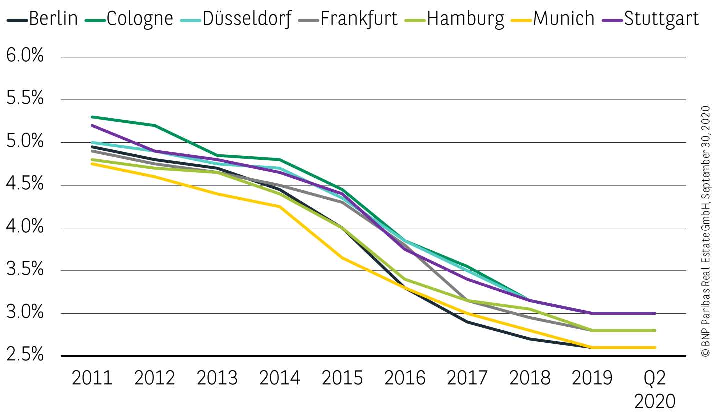
Office investments by € category Q1-3



Office investments by buyer group Q1-3



Development of office net prime yields



LARGE-VOLUME DEALS REMAIN MARKET-DOMINANT

Large-volume deals continue to be the mainstay of the investment market in the current year 2020, which is not surprising given the initially restrained investment activities in the wake of the Corona pandemic in Q2 and Q3. By the end of September, € 9.8 billion had been invested by transactions worth over € 100 million, of which just under € 5.4 billion was generated by single deals. To date, a total of around 29 individual transactions of this magnitude have been completed, including 9 in the last quarter. Around € 4.6 billion had flowed into German office portfolios by the end of September, including almost € 1 billion in the third quarter, underlining the confidence of investors in this asset class in general and the German office market in particular.

SPECIAL-PURPOSE FUNDS WITH HIGH ACTIVITY LEVEL

By the end of September, special-purpose funds had generated an office investment volume of € 3.2 billion, thereof € 1.6 billion in the third quarter alone. They are thus by far the strongest buyer group in terms of volume in the past three months. Important deals concluded during this period included the Medicus portfolio, the campus of Société Generale in Hamburg and the Pontis Haus in Munich. The acquisition of TLG by Aroundtown in the first quarter is still responsible for the high market share of listed real estate companies/REITs. The acquisition of Godewind by Covivio as well as the purchase of CRBE Global Investment Partners' share of the Cityhold portfolio have increased the market share of the investment/asset managers to 15.5%, in addition to numerous individual transactions.

TOP YIELDS CONTINUE TO DECLINE

The continuing high level of investor interest in core properties in the top markets, coupled with a persistent shortage of supply, led to a further drop in net prime yields across all A-locations in the third quarter. Prime yields fell by 5 basis points in Berlin, Frankfurt, Hamburg, Cologne and Munich, and by 10 basis points in Düsseldorf and Stuttgart. The range of net prime yields currently ranges from 2.55% in Berlin to 2.95% in Cologne.

PERSPECTIVES

National and international investors are convinced of the long-term stability of the German office markets. Germany's economic strength, the prospect of a rapid and sustainable recovery and the generally moderate supply on the rental markets speak for the location. A lot of capital is still looking for investments with an attractive risk/return profile. German office real estate offers opportunities that are hardly found in other asset classes. Despite all uncertainties, a very high transaction volume in combination with low yield levels is emerging for the year as a whole.

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