BNP PARIBAS REAL ESTATE

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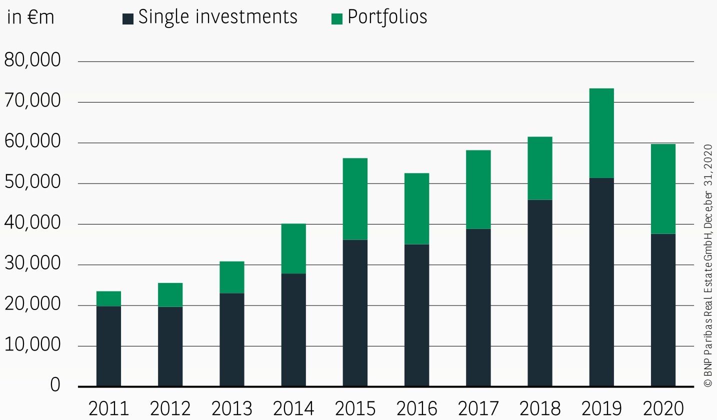
RESEARCH

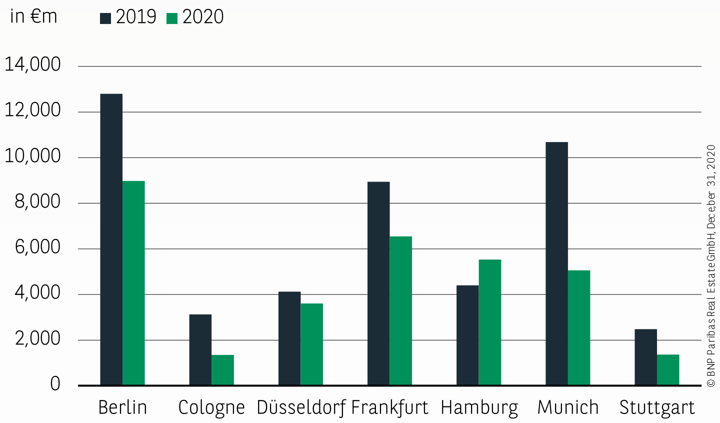
At a Glance Q4 2020

INVESTMENT MARKET GERMANY

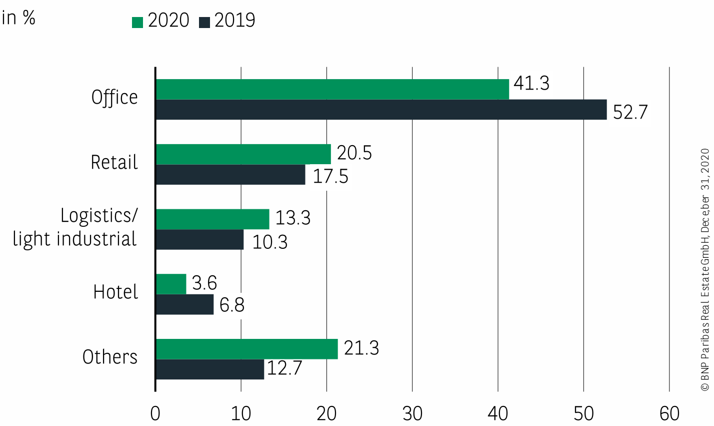
Investment volume in Germany



Investment volume in the A-locations



Investments by type of property in Germany



INVESTMENT MARKETS DEFY THE CORONA CRISIS

As expected, the investment markets continued to perform well in the fourth quarter of 2020 despite the renewed lockdown. With an investment volume of €18 billion, the ten-year average was exceeded by 8%. The vast majority of major deals that were temporarily placed on hold, particularly in the second quarter, were completed in the course of the second half of the year. In addition to the strong start to the year, it was definitely the high investment activity at the end of the year that lifted total investment volume in 2020 to a good €59.7 billion, almost a quarter above the ten-year average. The result shows that investors assume that the effects of the Corona pandemic will be temporary and that market development will subsequently pick up again noticeably. This also applies above all to the tenant markets, where a significant recovery is likely to start in the latter half of the year once the vaccination level has risen.

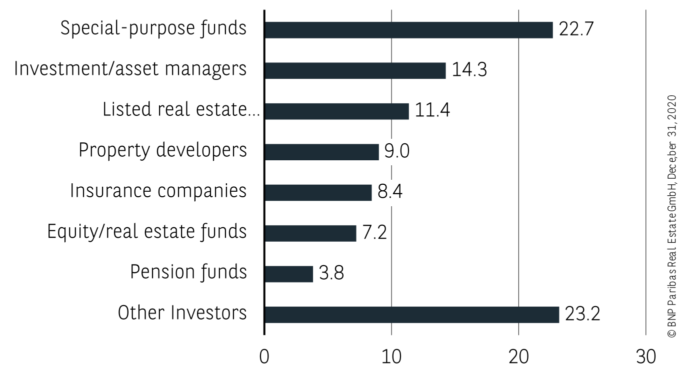
A-LOCATIONS WITH SIGNIFICANT DECLINE IN SALES

In the A-cities (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, Stuttgart), a good €32.4 billion (-30%) was recorded. This represents the fourth-best result in history. Due to the record year 2019, almost all cities had to record losses. Only in Hamburg did the volume increase by 26% to €5.53 billion. Berlin came out on top with almost €9 billion, a decline of around 30%. Frankfurt regained second place with a good €6.5 billion (-27%). While Munich broke the €10 billion barrier for the first time last year, the 2020 result was around 50% lower at just under €5.1 billion. The decline in Düsseldorf was relatively small at €3.6 billion (-13%). By contrast, Stuttgart, at €1.37 billion (-45%), and Cologne, at €1.35 billion (-57%), both recorded tangible losses and achieved below-average results.

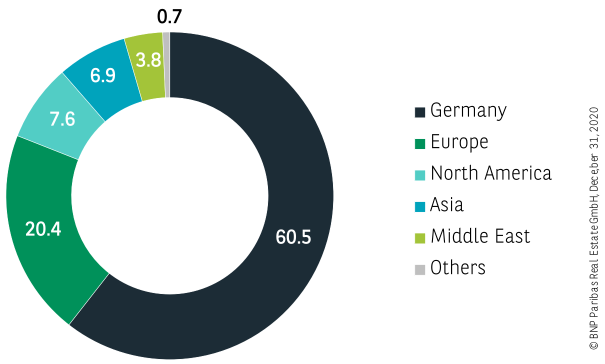
OFFICES REMAIN AT THE TOP

Offices remained the most important asset class in 2020, contributing around €24.7 billion (41%) to the annual total. This result proves that investors expect demand to remain positive in the long term, despite discussions about rising home office shares. Retail came second with just under € 12.3 billion (20.5%). The leading trio is completed by logistics properties, which contributed a good €7.9 billion (13%) and achieved the second-highest transaction volume of all time. A new record was set in the healthcare segment, which at €3.6 billion exceeded the €3 billion threshold for the first time. By contrast, investment in hotels was lower than it had been for years at just under €2.2 billion.

Investments by buyer group 2020



Investments by origin of capital 2020



Development of net prime yields

* Ø A-locations

SHARE OF FOREIGN BUYERS SLIGHTLY LOWER

At just under 40%, the share of foreign buyers is slightly lower than in previous years. Although they account for 62% of the portfolio volume, they contribute only a good quarter of the transaction volume in the single deals segment. This shows that, due to contact and international travel restrictions during the lockdowns, many international investors were only in a very limited position to fully examine and complete larger transactions in Germany. European investors were the most active with a share of 20%.

YIELD COMPRESSION NOT YET OVER

The unchanged attractive conditions in competition with other asset classes are keeping demand for premium properties at a very high level. It is therefore not surprising that net prime yields have continued to fall in 2020 despite the current difficult macroeconomic environment. Year-on-year, they have fallen by an average of 8 basis points in the A locations. In Hamburg, a yield decline of 10 basis points was observed in the fourth quarter. The lowest net prime yields for offices at the end of 2020 are still in Berlin and Munich, each at 2.55%. Hamburg has moved into third place at 2.65% and is now ahead of Frankfurt, where the figure remains unchanged at 2.75%. Yields are also stable outside the top four locations. In Düsseldorf and Stuttgart, they are still quoted at 2.90%, and in Cologne, they remained at 2.95%. In contrast, the net prime yields for logistics properties have continued to fall, dropping by a further 15 basis points to 3.35%.

OUTLOOK

Both transaction volumes and investor interest underscore that investment markets have largely defied the Corona pandemic and the consequences of the lockdowns over the past year, even if differences were observed between asset and risk classes. In principle, this suggests that buyers are assuming a relatively rapid economic recovery and mostly view the effects as temporary. This assessment is accompanied and backed by the support measures taken by government bodies and relatively stable labour markets, which are benefiting from the instrument of short-time working. Against this background, important indicators suggest that the markets will remain buoyant in 2021. Although portfolio sales are not expected to play as big a role as in 2020, the value-add and core-plus segments are expected to pick up as occupier markets recover. From today's perspective, the target investment volume for the current year is again likely to be around €60 billion. At the same time, there is a realistic chance that net prime yields for absolute premium properties could fall again slightly in the course of the year.

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