BNP PARIBAS REAL ESTATE

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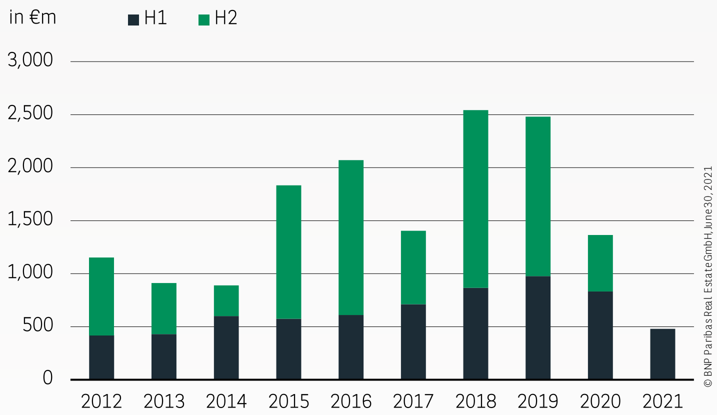
RESEARCH

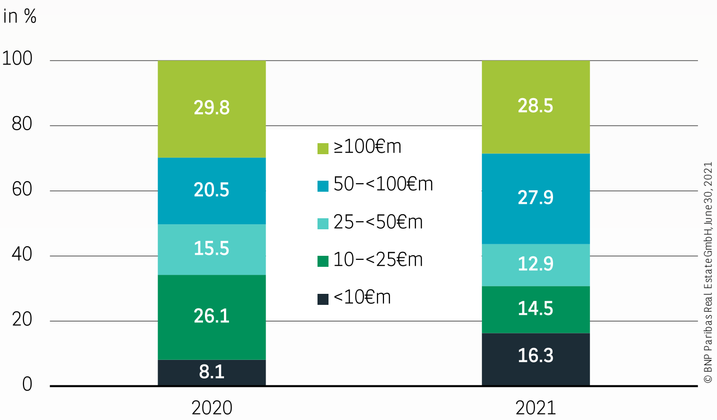
At a Glance Q2 2021

INVESTMENT MARKET STUTTGART

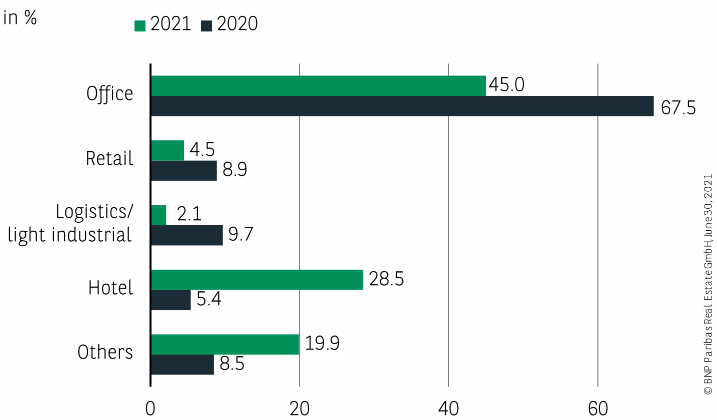
Investment volume in Stuttgart



Investments by € category in Stuttgart H1



Investments by type of property in Stuttgart H1



BELOW-AVERAGE HALF-YEAR RESULT

With a sales volume of € 480 million, the Stuttgart investment market is still somewhat subdued at the end of the second quarter. The result is a good 42% below that of the same period in 2020 and falls short of the long-term average by around 26%. However, the fact that Stuttgart is one of a total of four A-locations that are unable to match their prior-year volumes puts the result into perspective to some extent. The decisive factor for the weaker half-year result is not so much the average volume per deal, which at just under €22 million is comparable to the previous year, but rather the number of sales, which fell by almost 39%. The most important transactions in the first two quarters included the hotel tower under construction at Mailänder Platz, which will be home to the two hotel chains Premier Inn and Adina Hotels, as well as the new office building MayOffice as part of a neighborhood development in Feuerbach. Not least, these two property developments show that investments in Stuttgart are still very attractive, particularly in the modern segment, provided that the supply is sufficient.

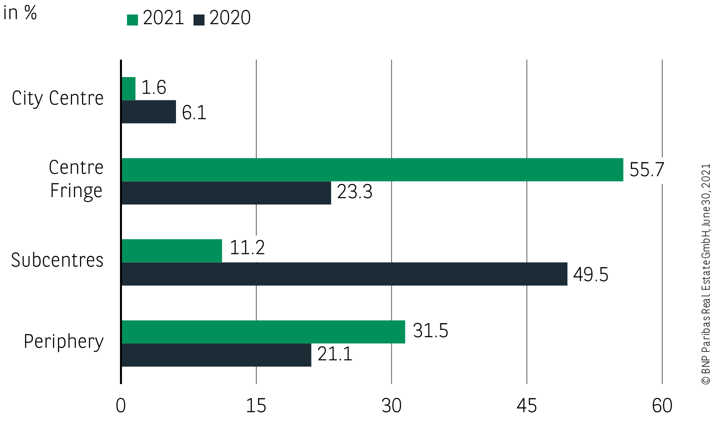
BROAD DIVERSIFICATION ACROSS MARKET SEGMENTS

Traditionally, large-volume deals in Stuttgart contribute less to transaction volume than in some other A-cities. This has also been confirmed in the first half of 2021, so that a relatively broad spread across the individual size classes can once again be observed. While major deals in excess of €100 million have taken a narrow lead with almost 29%, slightly less transaction volume is attributable to properties between €50 million and €100 million (28 %). Deals of €10 million to €25 million have made it into third place, contributing approximately 15%. Overall, this distribution indicates a stable demand base across all size segments.

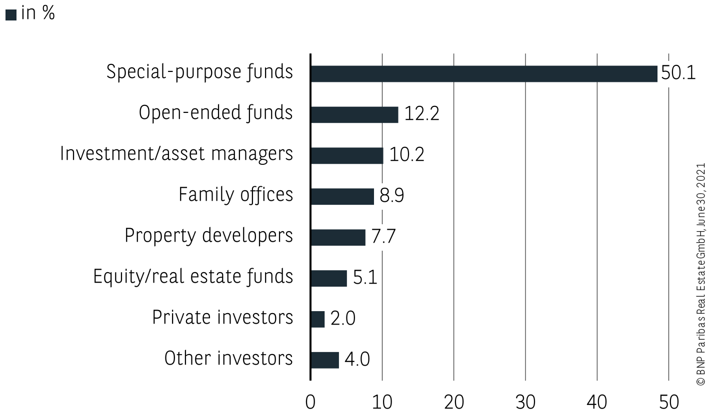
OFFICES CLEARLY IN THE LEAD DESPITE LOWER VOLUME

As is usual for Stuttgart, the lion's share of transaction volume in the first half of 2021 was again be accounted for by office properties, at a good 45%. In a long-term comparison, however, the corona-related restrained market activity is also noticeable in the office segment, so that with a volume of € 216 million the result is below average after the first six months. Hotels, which account for almost 29% of the total investment volume, are a key contributor to the overall volume, driven by the major deal at Mailänder Platz. The two other asset classes of retail and logistics properties contribute almost 5% and just over 2%, respectively. The collective category of „other" properties accounts for almost 20%.

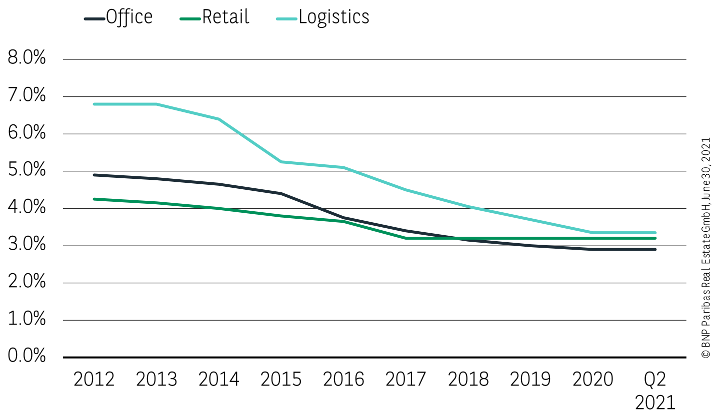
Investments by location in Stuttgart H1



Investments by buyer group in Stuttgart H1 2021



Net prime yields by type of property in Stuttgart



CITY UNDERREPRESENTED DUE TO SUPPLY SHORTAGE

The distribution of transaction volume across the city impressively demonstrates the shortage of supply in Stuttgart's city center. Only just under 2% of the transaction volume was registered here. In contrast, the City Fringe benefited from the two large-volume transactions involving the hotel tower at Mailänder Platz and the MaybachOffices in Feuerbach, which, with a total volume of €268 million, producing a new record and almost 56% of the overall result. The periphery also performed well in a long-term comparison, with a transaction volume of €151 million and a share of almost 32%. Subcentres accounted for another 11%, mainly due to smaller single office transactions.

SPECIAL-PURPOSE FUNDS AT THE TOP OF THE TABLE

The distribution of investment volume among the various buyer groups was clearly dominated by special-purpose funds in the first half of the year, which accounted for a good half of the overall result. Here, too, the two major deals already mentioned are the main contributors. Open-ended funds (a good 12%) follow at a clear distance, followed by investment/asset managers (around 10%) and family offices (just under 9%). Equity/real estate funds account for a good 5%. As in the previous year, the share of sales generated by foreign investors, at just under 18%, is low compared with the national commercial real estate market (almost 39%).

YIELDS STABLE SINCE THE BEGINNING OF THE YEAR

Although the market environment in the first half of the year was dominated by the Corona pandemic and was correspondingly challenging, net prime yields in Stuttgart, as in many other major locations, have been stable since the start of the year. In the office segment, for example, yields are currently unchanged at 2.90% while highstreet property in prime locations are yielding at 3.20%. The rapid yield compression of recent years for logistics investments has come to a halt for the time being, with yields remaining at 3.35%.

OUTLOOK

Due to the continuing high level of interest from buyers, a revival of transaction activity is expected for the second half of the year, particularly against the backdrop of the significantly improving general conditions within the Corona crisis, whereby the lack of supply in the central locations in particular could become a limiting factor. However, it remains to be seen whether the Stuttgart investment market will be able to catch up in the second half of the year and achieve a year-end result in the region of the long-term average of around €1.6 billion.

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