BNP PARIBAS REAL ESTATE

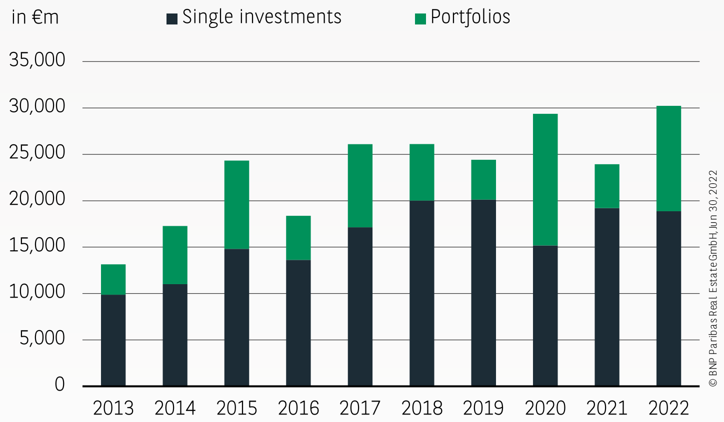
Real Estate
for a changing world

RESEARCH

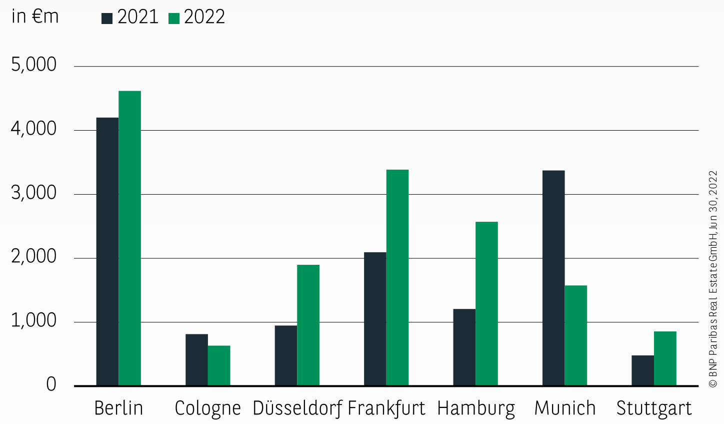
At a Glance Q2 2022

INVESTMENT MARKET GERMANY

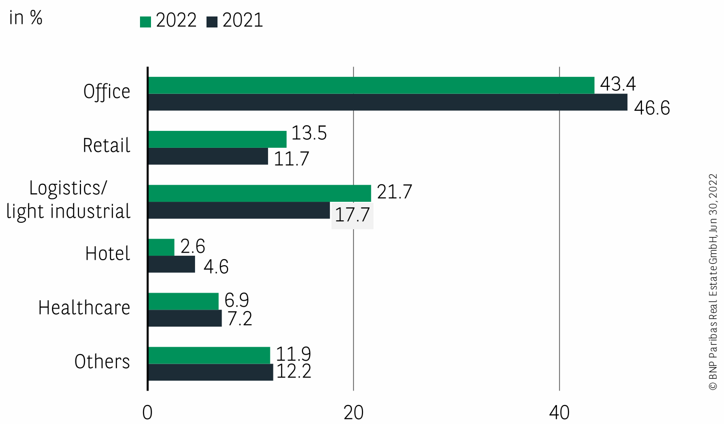
Investment volume in Germany H1



Investment volume in the A-locations H1



Investments by type of property in Germany H1



STRONG RESULT DESPITE CHANGING CIRCUMSTANCES

The German commercial real estate market registered an investment volume of €30.2 billion in the first half of the year. This new record figure was mainly due to the historically strong start to the year with over €19.7 billion. The second quarter was significantly influenced by the war against Ukraine, which started end of February. The investment environment, which has changed within a few days and weeks, had a significant restraining effect on market activities, resulting in €10.5 billion investment volume for the spring months. German investment markets entered a new phase in the weeks following the outbreak of the war against Ukraine. Within a few weeks, the tone and the outlook on the investment markets has changed for investors. In addition to the geopolitical distortions and the significantly worsened economic perspectives, the end of the loose monetary policy and the turnaround in interest rates that has now also been announced by the ECB have led many investors to adjust their investment strategy and in some cases forced them to completely revise it. Financing conditions changed noticeably within a very short period of time with swap rates reflecting impressively the current expectations of the world of finance. Less surprisingly, the previous historically high market momentum has declined.

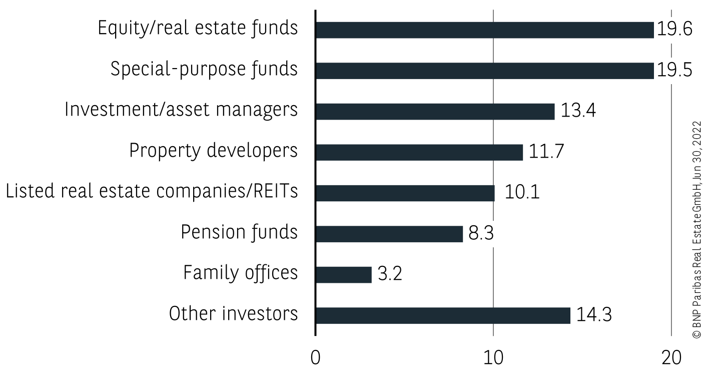
A-LOCATIONS EXCEED €15 BILLION

The German A-locations exceeded the €15 billion mark for the first time at mid-year. However, the record start (over €10 billion) has without doubt made all the difference. In recent weeks, investors in Germany's top locations have noticeably slowed down their pace, resulting in a second quarter result of just €4.5 billion. Berlin once again leads the field by far (€4.6 billion), followed by Frankfurt (€3.4 billion). Hamburg and Düsseldorf came third and fourth, with record results of EUR 2.6 billion and EUR 1.9 billion, respectively. By contrast, Munich (€1.6 billion) and Cologne (€630 million) experienced a significant drop in investment volumes compared with the previous year.

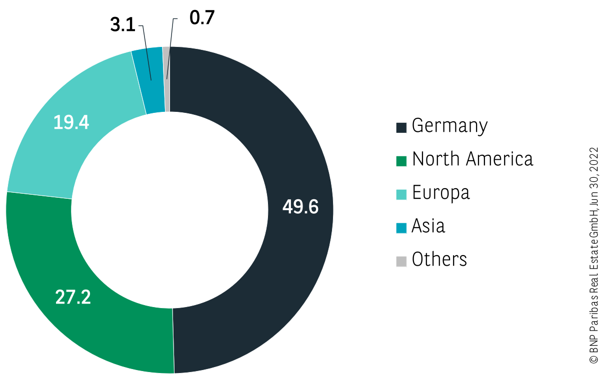
OFFICE REMAINS STRONGEST ASSET CLASS BY FAR

With a volume of roughly €13.1 billion, office properties remain the strongest asset class. At €6.6 billion, the logistics investment market remains at a very high level in a long-term comparison. Retail properties reached €4 billion, while healthcare properties exceeded the €2 billion mark for the first time.

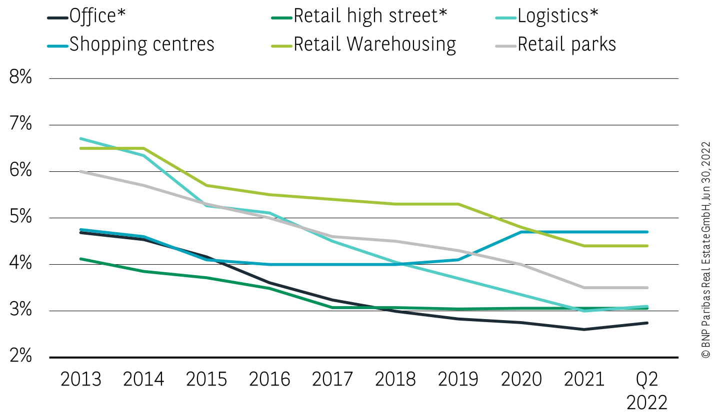
Investments by buyer group H1 2022



Investments by origin of capital H1 2022



Development of net prime yields



* Ø A-locations

TWO BUYER GROUPS WELL AHEAD

In the first half of the year, equity/real estate funds and special-purpose funds were the dominant buyers, each accounting for almost 20% of the result. In addition, investment/asset managers (13%), property developers (12%) and listed real estate companies/REITs (10%) also contributed significantly to the result. Foreign and German investors are currently tied with a market share of 50% each. For the first time since 2015, foreign investors generated roughly half of the recorded investment volume.

OFFICE & LOGISTICS YIELDS: FIRST INCREASE SINCE 2009

The new reality on global financial markets, respectively the changed environment in interest rates, becomes incrementally visible in prime yield trends over the past weeks. As a result, the price level initially requested by the sellers is barely being achieved. Although the letting markets, especially office and logistics, continue to perform well regardless of the challenges, the net prime yields for office have increased already. The same applies to the top logistics markets, where demand remains high. The prime office yield rose by 15 basis points each in Berlin (2.55%), Düsseldorf (2.90%), Frankfurt (2.80%), Hamburg (2.70%), Cologne (2.75%) and Stuttgart (2.90%). One exception is the economic metropolis of Munich, where demand is traditionally strong, resulting in an increase of 10 basis points to the current level of 2.60%. In the German logistics hubs, the net prime yield now quotes at 3.10% (+10 basis points). No changes have yet been registered for the retail segment. The prime yields therefore quote as follows: Retail parks (3.50%), retail warehousing (4.40%) and shopping centres (4.70%).

OUTLOOK

The current market-dominating phase of determining prices, in which sellers and buyers both find a new level that suits both sides, is likely to take several more months. Last but not least, experience shows that this process accelerates as evidence increases and security returns. From early fall in particular, the German commercial investment market is expected to become more active again, leading to a noticeable increase in the number of transactions. Given the current strength of the letting markets, with their excellent fundamentals, this should provide additional security for investors when it comes to investment decisions. With this in mind, the investment volume is very likely to exceed €50 billion by the end of the year. Also, further differentiation of net prime yields by asset class and location is the most likely scenario.

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