BNP PARIBAS REAL ESTATE

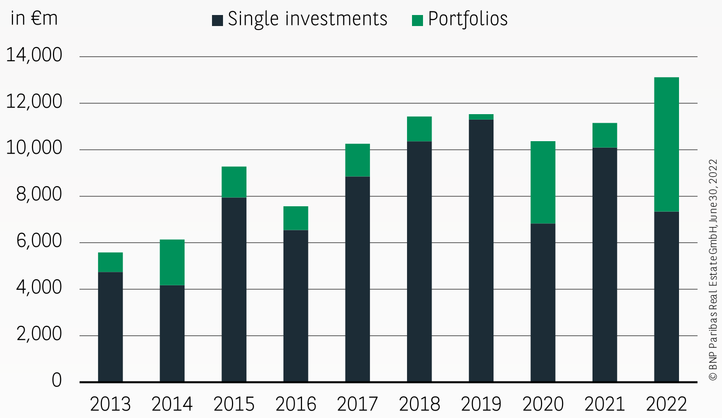
Real Estate
for a changing world

RESEARCH

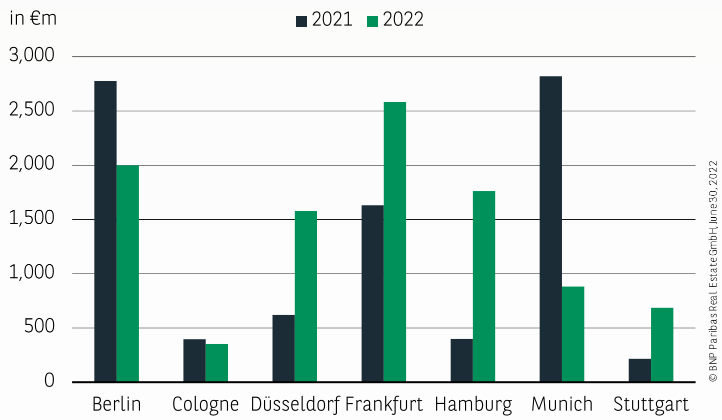
At a Glance Q2 2022

OFFICE INVESTMENT MARKET GERMANY

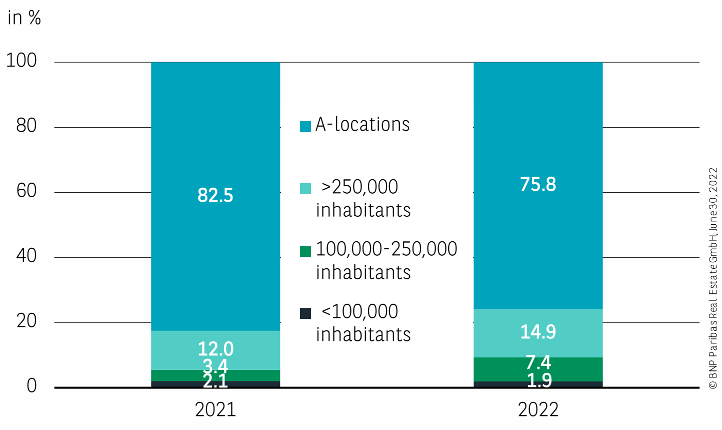
Office investments in Germany H1



Office investments in the A-locations H1



Office investments by city size H1*



* excl. portfolios

OFFICE REMAINS BY FAR THE STRONGEST ASSET CLASS

Office properties continue to be the strongest asset class on the German commercial real estate market. In the first half of the year, around €13.1 billion was placed in this segment, bringing its market share to a good 43%. A new record was thus set, for which the record start to the year with almost €9.8 billion was primarily responsible. Since the outbreak of the Ukraine war, transaction activity has slowed down considerably (Q2: €3.3 billion), which is mainly due to the noticeable change in financing conditions within a very short period of time, as investors' confidence in the office product in Germany is a given. The very high investment volume of the past two years shows this impressively, confirmed once again by the recent positive development on the occupier markets. It is the financing environment that is causing less market momentum: while the reality of those willing to buy is completely new, the price expectations of sellers, particularly in the core segment, are still at the historically high level of the beginning of 2022. This gap must be closed. Experience from previous crises suggests that this finding phase could very likely take several months before the market fully picks up again.

FRANKFURT HOLDS ITS OWN AT THE TOP

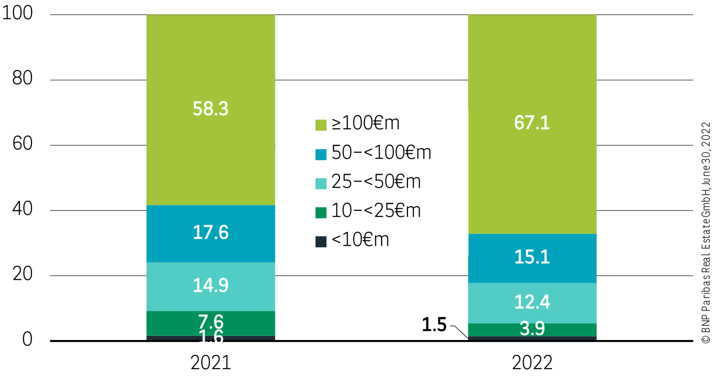
In the A-locations, around €9.8 billion was invested in office properties in the first half of the year, which is a new high. A very strong start to the year (€7.7 billion) was followed by a weaker second quarter (€2.1 billion). Investment activity varied greatly between the markets. With €2.6 billion, Frankfurt holds its own at the top, including an office tower traded in the triple-digit million range in the second quarter. Berlin is currently the most stable market with €1.1 billion (Q1) and €920 million (Q2). Behind the top results of Hamburg (€1.8bn), Düsseldorf (€1.6bn) and Stuttgart (€690m) is primarily the alstria acquisition at the beginning of the year, although Düsseldorf and Hamburg also saw single larger transactions in the spring. Munich has so far fallen short of expectations in both quarters, with a total of only around €880 million. Cologne's investment volume currently stands at €350 million.

B-LOCATIONS GAIN MARKET SHARE

For the moment, it seems that buyers and sellers outside the top markets can reach a positive negotiation result more quickly, while in the A-locations the coming together of both sides is currently more challenging, especially in the core and so-called super core segment. The market share of the A-locations is only 76% for the time being.

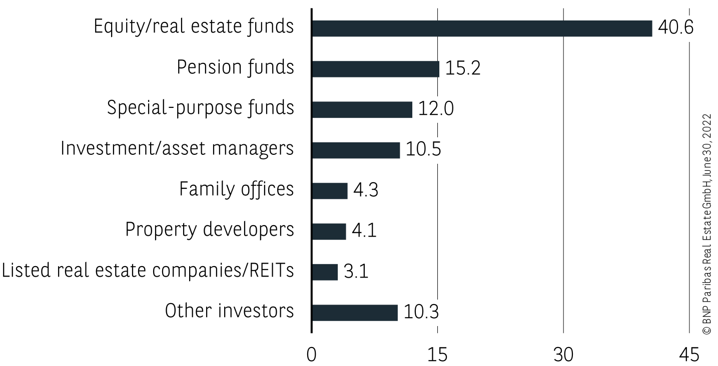
Office investments by € category H1

in %

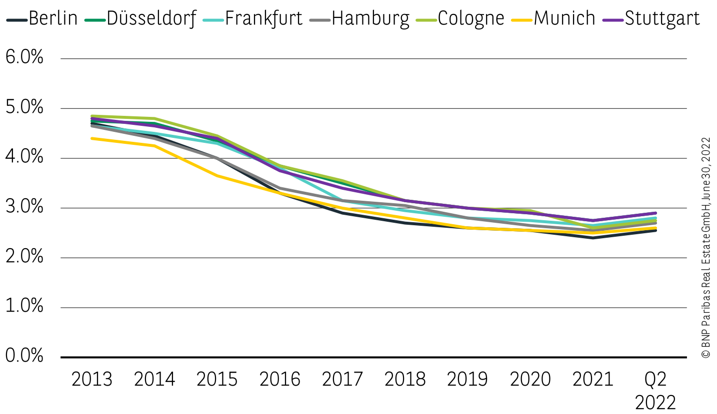


Office investments by buyer group H1

in %



Development of office net prime yields



LARGE DEALS CONTINUE TO DRIVE THE MARKET

So far, large-volume deals over €100 million have once again dominated transaction activity on the market for German office properties. In the first half of the year, their market share amounted to 67% and an impressive €8.8 billion was placed, which is an unprecedented volume for the German market. However, the usual high pace of deals in this segment in particular has slowed down, resulting in a comparatively moderate €1.4 billion in the second quarter, including core deals at the end of June. The most stable market development was in the size class between €25 and 50 million, where with €810 million in Q1 and €820 million in Q2 almost a precision landing was achieved.

EQUITY/REAL ESTATE FUNDS CLEARLY AHEAD

The market share of equity/real estate funds was around 41% at the end of the first half of the year. This is almost exclusively due to the Alphabet portfolio as well as the acquisition of alstria by Brookfield in the first quarter. In contrast, the second-placed pension funds (market share around 15%) were also very active in the spring. They invested around €1.1 billion in Q1 and another €900 million in Q2. Special-purpose funds and investment/asset managers each placed around €500 million in German office properties in the second quarter. Their market shares were 12% and 10.5% respectively in the summer.

PRIME YIELDS RISE AGAIN FOR THE FIRST TIME SINCE 2009

The new reality on the global financial markets and the associated rise in financing costs is increasingly visible in the development of prime yields in recent weeks. Although the evidence in the core segment is still lacking, an increase in net prime yields of around 15 basis points can be registered in the majority of A-locations. These include Berlin (2.55%), Düsseldorf (2.90%), Frankfurt (2.80%), Hamburg (2.70%), Cologne (2.75%) and Stuttgart (2.90%). In the business metropolis of Munich, it has risen by 10 basis points to 2.60%.

OUTLOOK

In our experience, the current market-dominating price-finding phase, in which sellers and buyers alike find a new level that works for both sides, is likely to take several more months. It is a process that, according to our experience, picks up speed with increasing evidence and returning certainty. From early autumn in particular, the office investment market is likely to become much livelier again with a noticeable increase in the number of transactions. The currently well performing letting markets with their very good fundamental data should give investors additional security in their investment decisions. Yields are likely to move towards a higher level, i.e. a downwardly adjusted price level.

All rights reserved. At a Glance is protected in its entirety by copyright. No part of this publication may be reproduced, translated, transmitted, or stored in a retrieval system in any form or by any means, without the prior permission in writing of BNP Paribas Real Estate GmbH.

The statements, notifications and forecasts provided here correspond to our estimations at the time when this report was prepared and can change without notice. The data come from various sources which we consider reliable but whose validity, correctness or exactness we cannot guarantee. Explicitly, this report does not represent a recommendation of any kind, nor should it be regarded as forming a basis for making any decisions regarding investment or letting or renting property or premises. BNP Paribas Real Estate can accept no liability whatsoever for any information contained or statements made herein.

Imprint Publisher and copyright: BNP Paribas Real Estate GmbH | Prepared by: BNP Paribas Real Estate Consult GmbH | Status: 30.06.2022

Further Information BNP Paribas Real Estate GmbH | Sven Stricker, Head of Commercial Investment | Phone +49 (0)30-884 65-0 | sven.stricker@bnpparibas.com | www.realestate.bnpparibas.de