Real Estate
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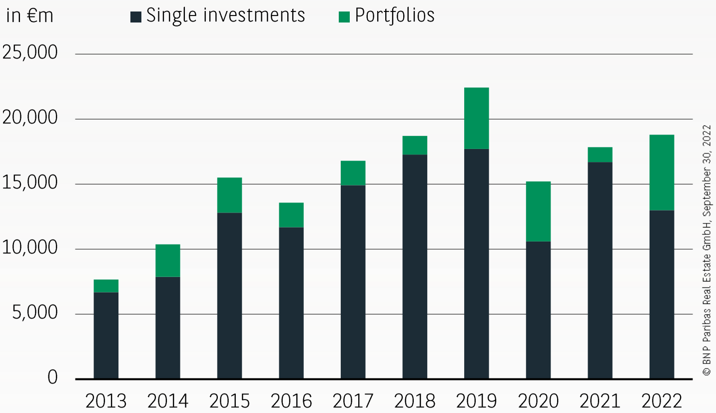
RESEARCH

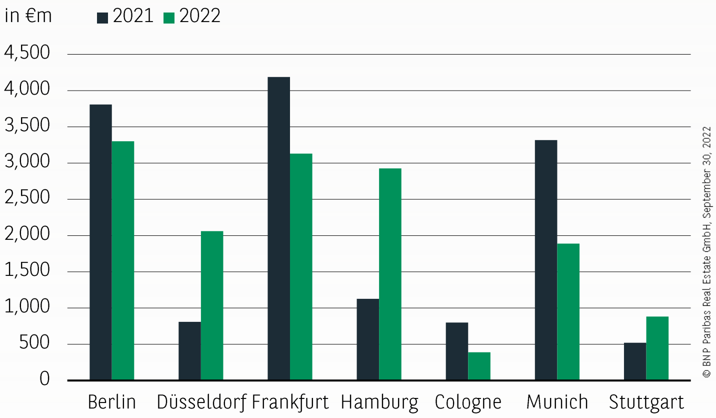
At a Glance Q3 2022

OFFICE INVESTMENT MARKET GERMANY

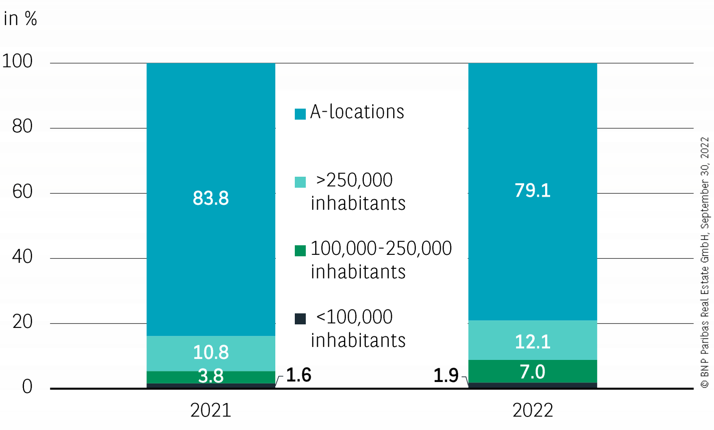
Office investments in Germany Q1-3



Office investments in the A-locations Q1-3



Office investments by city size Q1-3*



* excl. portfolios

SLIGHTLY ABOVE PREVIOUS YEAR'S LEVEL

By the end of September, office investment volume has amounted to €18.8 billion, which implies a rise by a good 5 % year-on-year. The 10-year average has even been exceeded by an impressive 20%. Offices thus remain by far the most favored asset class among investors, accounting for just under 43% of total commercial real estate investment volume. Despite the growing trend towards remote working, it is clear that offices will remain essential in the future and will continue to be in high demand by tenants. This assessement is underlined by the current take-up figures on the office occupier markets, which at the end of Q3 2022 are approx. 21% above the corresponding prior years result. However, it should be taken into account that this good investment result is strongly affected by a high share of portfolio transactions, whereby the takeover of alstria by Brookield in the first quarter in particular played a significant role. A total of € 5.8 billion (31%) is attributable to portfolio investments. By contrast, single investments recorded a 22% decline in volume to currently €13 billion. Two of the most significant deals were the transactions brokered by BNPPRE involving an office complex of BayernLB on Brienner Straße in Munich and the VoltAir in Berlin.

THREE MARKETS HEAD-TO-HEAD

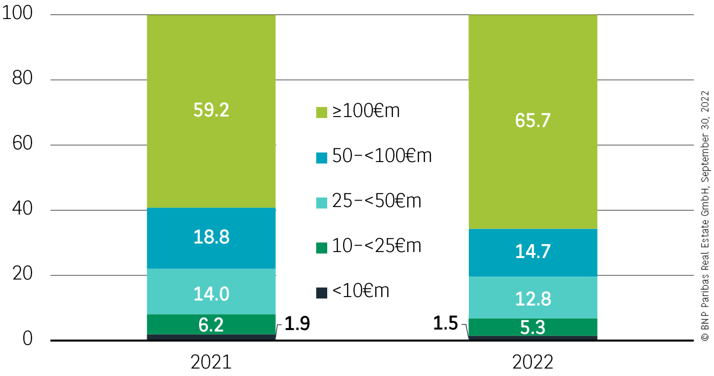
Almost €14.6 billion has been invested in the A locations to date, matching the previous year's figure. At the same time, the result is slightly above the long-term average. Berlin, Frankfurt and Hamburg almost tied at the top for the highest investment volume, with the capital city coming out on top with €3.3 billion. Frankfurt follows in second place with a good €3.1 billion. However, investment volumes decreased in both cities y-o-y. Hamburg came third with a good €2.9 billion (+160% y-o-y). The alstria takeover in particular had a strong impact here. Düsseldorf with a volume of almost €2.1 billion registered a similar increase. Munich recorded a below-average result of €1.9 billion, and so did Cologne with only €390 million. Meanwhile, Investment activity soared in Stuttgart increasing by 70% y-o-y to €882.

SLIGHT INCREASE IN THE SHARE OF SMALLER LOCATIONS

The share of smaller cities with up to 250,000 inhabitants has approximately doubled and is currently just under 9%. One reason for this might be that, on the one hand, more private capital is active in those markets due to the smaller volumes and, on the other hand, the effects of the increased cost of financing are somewhat less significant than in the institutionally dominated markets of the A-locations.

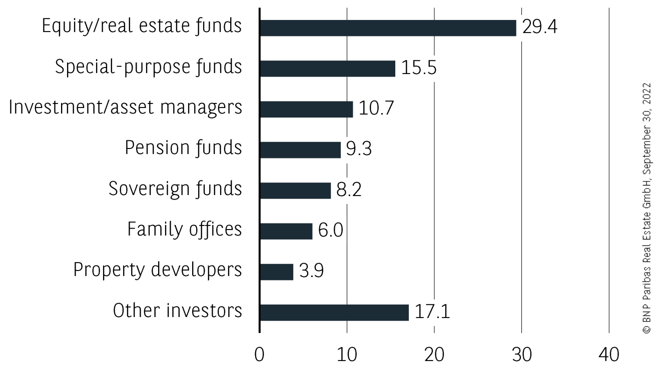
Office investments by € category Q1-3

in %

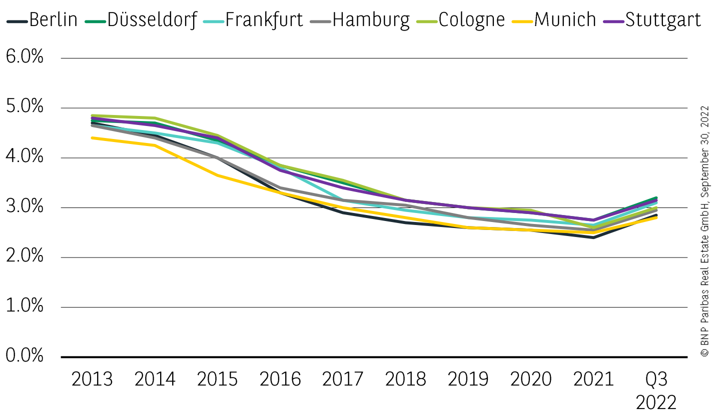


Office investments by buyer group Q1-3

■ in %



Development of office net prime yields



LARGE TRANSACTIONS ACCOUNT FOR AROUND TWO-THIRDS

With an investment volume of almost €12.4 billion, large transactions of over €100 million dominated market activity and contributed around two-thirds to the result. A higher volume was only achieved in the first three quarters of 2019. Almost € 3.6 billion was recorded in the third quarter. This shows that large transactions remain important despite the significant increase in cost of financing and a challenging environment. The size categories of €50 to 100 million with a share of just under 15% and between €25 and 50 million with almost 13% rank below. Smaller sized deals of up to €25 million account for around 7% to date, which still corresponds to an investment volume of just under €1.3 billion in absolute terms.

THREE BUYER GROUPS WITH DOUBLE-DIGIT SHARES

Among the involved groups of buyers, equity/real estate funds took the lead with a share of a good 29%, to which the takeover of alstria by Brookfield contributed substantially. With Special-purpose funds contributing 15.5%, and Investment Managers, accounting for just under 11%, two other groups of buyers achieved double-digit shares. Other major contributors were pension funds with a good 9%, sovereign funds with over 8%, and family offices with 6%. This distribution of investment volumes demonstrates that the German market continues to be appealing to a wide range of investors.

PRIME YIELDS CONTINUE TO RISE

The significant rise in financing costs is reflected in yields, which have continued their rising trend in the third quarter, as expected. For office properties, net prime yields increased by 20 to 30 basis points in the third quarter. Currently, the most expensive city is Munich at 2.80%. The previous leader, Berlin, comes in second with 2.85%. Hamburg ranks third with 2.95%, followed by Cologne with 3.00% and Frankfurt with 3.10%. In Stuttgart, the prime yield is currently at 3.15% and in Düsseldorf at 3.20%.

OUTLOOK

Higher financing costs and the economic slowdown will continue to affect the markets in the final quarter. Therefore, the usual year-end rally will probably be weaker this year. At the same time, yields are expected to continue to increase slightly in the final quarter. However, it is undisputed that real estate will remain a long-term investment target for many investors, which is underlined by the third-quarter figures. Against this background, important influencing parameters are expected to stabilize in the course of the first half of 2023, making the markets more predictable and enabling them to resume the stable trend observed over the past few years.

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