BNP PARIBAS REAL ESTATE

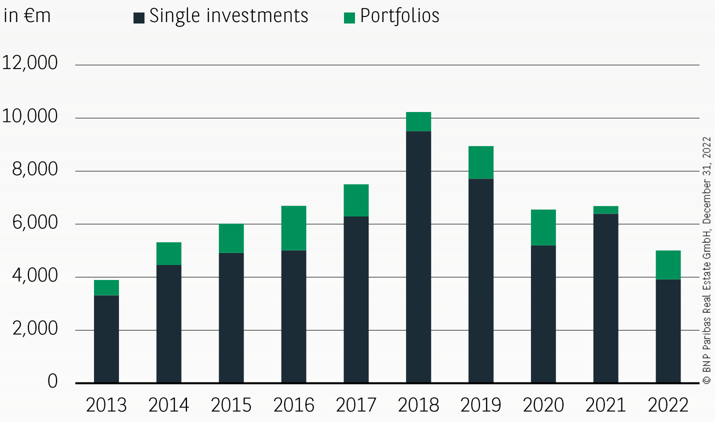
Real Estate for a changing world

RESEARCH

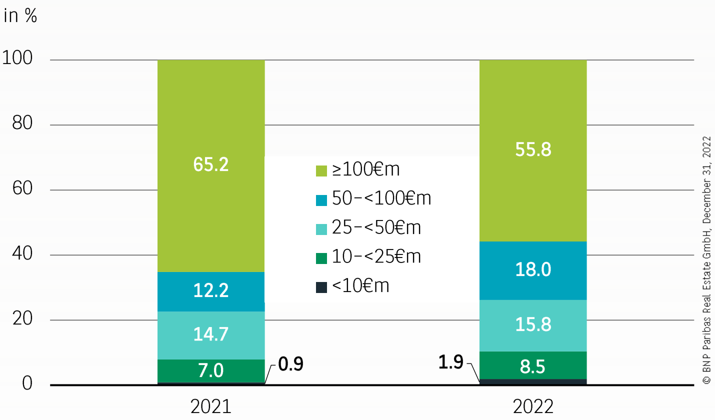
At a Glance Q4 2022

INVESTMENT MARKET FRANKFURT

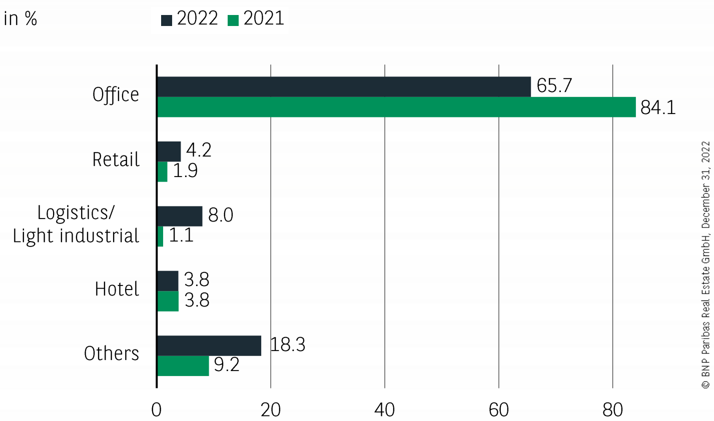
Investment volume Q1-4



Investments by € category Q1-4



Investments by type of property Q1-4



VOLUME OF €5 BILLION DESPITE DIFFICULT CIRCUMSTANCES

Like almost all other major locations, the Frankfurt investment market suffered a significant decline of investment volume, but still performed relatively well amid a very challenging environment. A total transaction volume of over €5 billion was registered. Both the previous year's result and the 10-year average were missed by around a quarter. The decline is on a par with the average for the German A-locations. This is particularly remarkable as Frankfurt traditionally records a high proportion of large-volume core deals. This market segment has been particularly affected by the rising cost of financing, as buyers tend to operate with high leverage here. Around 78% of the result is attributable to single deals (€3.92 billion). A further €1.09 billion came from portfolio transactions, whereby the majority was attributable to the alstria takeover by Brookfield. In a nationwide comparison, Frankfurt ranks second overall, behind Berlin. Among the most important deals are the office properties Marienturm, K26, Sky Eschborn as well as Oststern Ost and Oststern West brokered by BNPPRE.

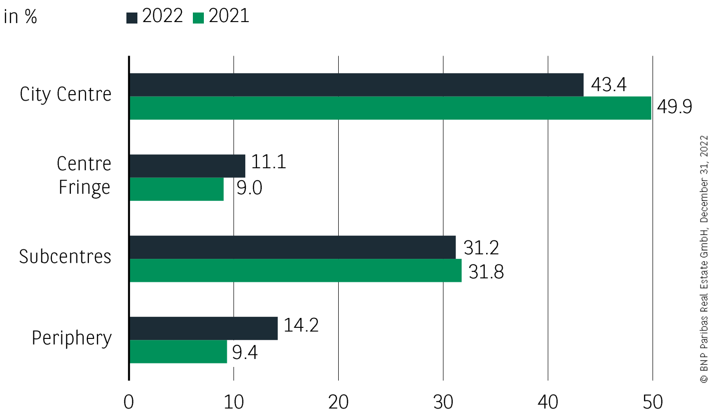
ONLY MINOR SHIFTS IN SIZE COMPOSITION

The distribution of investment volume by size category differs only slightly from the previous year. At just under 56%, large deals in the three-digit million range as usual account for the majority. However, this is almost 10 percentage points less than in 2021. This shows that increased cost of financing has affected especially the large-volume segment. By contrast, there was a slight increase in medium-sized transactions between €25 million and €100 million, which contributed 34% compared with 27% in the previous year. Smaller deals up to €25 million also recorded slight increases.

LOGISTICS AND DEVELOPMENT SITES IN HIGH DEMAND

Almost two-thirds of overall transaction volume was generated by office properties, which are traditionally the strongest asset class in Frankfurt. However, their share is about 18 percentage points lower than in the previous year and just under 8 percentage points below the long-term average. Logistics properties follow in second place, contributing 8%, which is double the average. Retail and hotel properties are almost on a par, accounting for around 4% of total volume. Both market segments therefore achieve slightly below-average values in a long-term comparison. "Other" properties consist, primarily, of development sites, which account for well over half of this category.

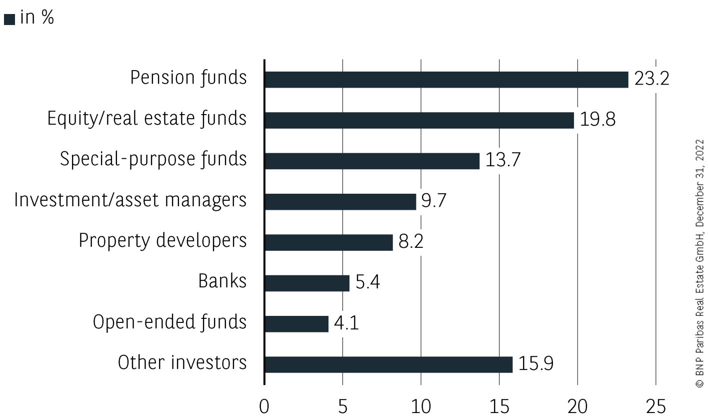
Investments by location Q1-4



CITY CENTRE REMAINS MOST SOUGHT-AFTER LOCATION

Once again, most investments were placed in Frankfurt's city centre. With a share of 43.5% this location managed to maintain its top position undisputed. In the long term, however, their share is around 10 percentage points below the average. The sub-centres once again made a substantial contribution to the result, generating over €1.56 billion, or around 31%. The centre fringe, with a good 11%, and the periphery, with over 14%, also made contributions similar to the usual scale. Despite the difficult environment and a modest result, the fundamental structure of the investment market remains unchanged.

Investments by buyer group Q1-4 2022



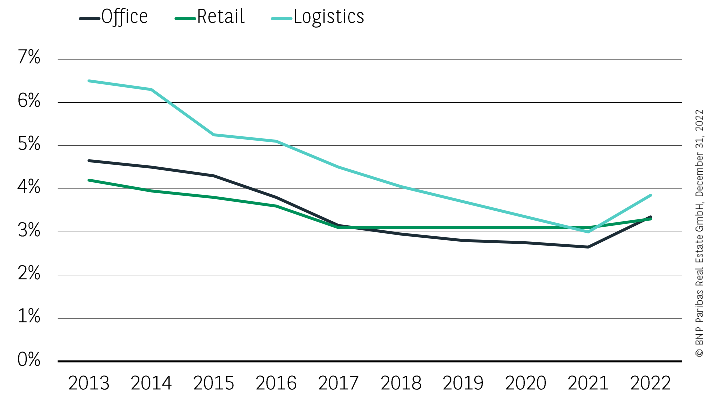
THREE GROUPS OF BUYERS WITH DOUBLE-DIGIT SHARES

The buyer distribution is influenced by a number of large deals. In total, three groups of investors generated double-digit shares. Pension funds took the lead with an above-average share of a good 23%, mainly due to the purchase of the Marienturm with an investment volume of more than €800 million. Equity/real estate funds account for a further almost 20%, to which the alstria take-over by Brookfield contributed significantly. With almost 14%, Special-purpose funds follow as expected, as do Investment/asset managers with almost 10% and Property developers with 8%.

PRIME YIELDS CONTINUE EXPANDING

Due to further interest rate hikes by the major central banks, yields continued to expand in the fourth quarter alongside further increases in the cost of financing. The net prime yield for offices increased by 25 basis points to 3.35%. Retail high street properties currently stand at 3.30%, reflecting an increase of 10 basis points. Logistics properties experienced the biggest increase in prime yields, surging 50 basis points to 3.85%.

Net prime yields by type of property



OUTLOOK

Taking into account further expected interest rate hikes by central banks, financing conditions will remain challenging, at least in the first few months of 2023. Nevertheless, from today's perspective, many indicators suggest that the currently market-dominating consolidation and price-finding phase could be completed in the course of the first half of the year, resulting in a gradual market recovery. The second half of 2023 is expected to see a rebound of the market activity resulting in a consequently higher investment volume. However, due to the expected moderate level of transaction volumes in the first half of the year, the full-year figure is likely to remain below average. Also, further slight increases in yields, at least in the first quarter, cannot be ruled out entirely.

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