BNP PARIBAS REAL ESTATE

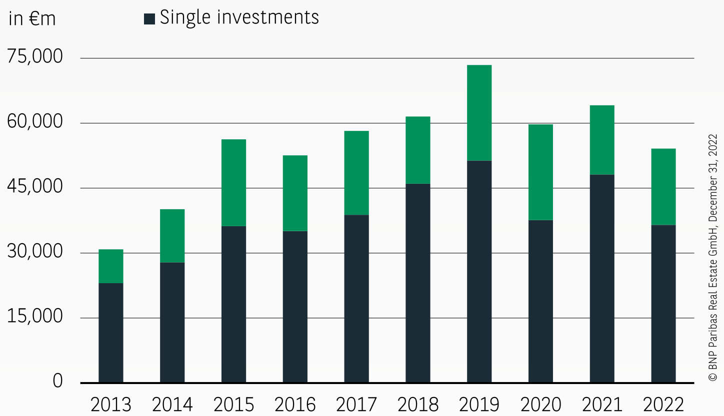
Real Estate for a changing world

RESEARCH

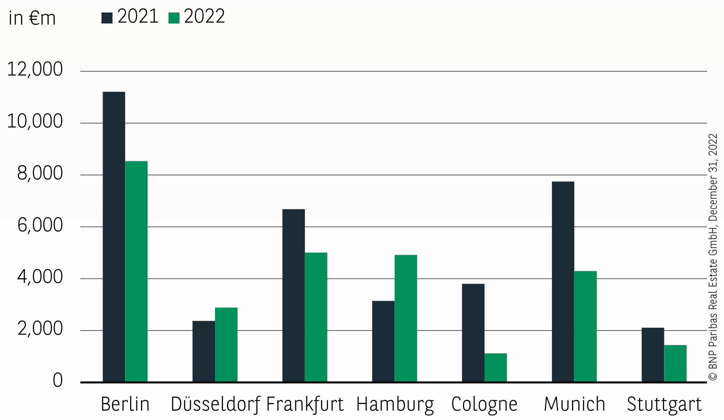
At a Glance Q4 2022

INVESTMENT MARKET GERMANY

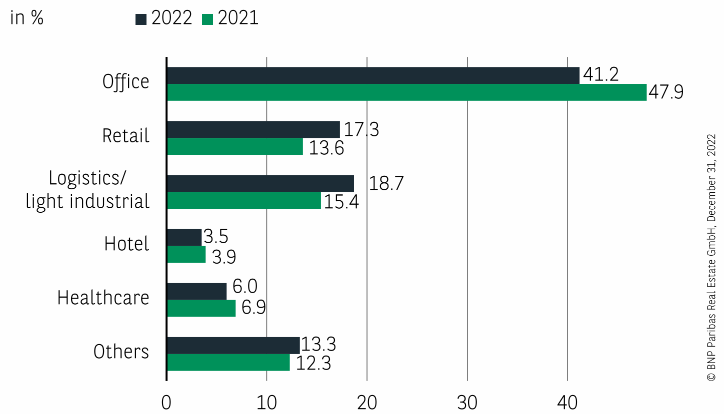
Investment volume in Germany Q1-Q4



Investment volume in the A-locations Q1-Q4



Investments by type of property in Germany Q1-Q4



HIGH TURNOVER DESPITE CHALLENGING ENVIRONMENT

The German commercial investment volume totaled €54.1bn in 2022. This is 16% below the comparable figure for the previous year. However, the ten-year average was only missed by 2%. The record result of the first quarter is primarily responsible for this good performance in the longer term, whereas the fourth quarter in particular recorded a very low transaction volume in a historical comparison. As expected, the traditional year-end rally did not take place, what clearly shows how challenging the current macroeconomic and financial market environment is for the commercial investment markets. At € 9.9 billion, the transaction volume in the fourth quarter was half the average of the last five years. The significant rise in interest rates, a weakening economy and inflation at record levels not only create a certain degree of uncertainty about the further development of the real estate markets, but have also contributed to the fact that many large transactions that were already being placed on the market could no longer be realised - many of them postponed to 2023.

SIGNIFICANT DECLINE ALSO IN THE A-LOCATIONS

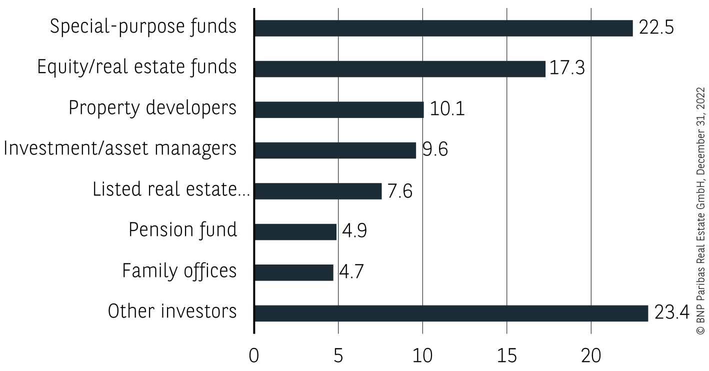
Turnover was also low in the A-locations (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, Stuttgart). At €28.2 billion, it has dropped by 24% compared to previous year's level. The most investments were made in Berlin with €8.54 billion. Although this represents a decline of almost 24 %, it is the fourth best result ever recorded. Frankfurt follows in second place with around €5 billion (-25 %). The winner's podium is completed by Hamburg, where a good € 4.9 billion was achieved. The Hanseatic city is thus one of two cities that were able to increase the volume (+57 %). It is followed by Munich with just under € 4.3 billion (-45 %), Düsseldorf with almost € 2.9 billion (+22 %) and Stuttgart with a good € 1.44 billion (-32 %). By far the largest decline was recorded in Cologne (-70 %) to € 1.1 billion.

OFFICES STILL IN THE LEAD, LOGISTICS IN SECOND PLACE

Offices are in the lead, contributing € 22.25 billion (41 %) to turnover. Their share has decreased by around 7 percentage points. Logistics properties follow in second place, achieving a record result due to the very good first half-year. At just under € 10.14 billion, they are responsible for almost 19 %. Retail-investments are close behind, having increased their share to a good 17 %. At just under € 9.4 billion, they are the only asset class to increase their transaction volume significantly (+7 %). Hotel investments are responsible for a market share of 3.5% (€1.9 billion), which is just below the previous year's value. There was also less turnover in healthcare real estate, which at just under € 3.3 billion accounted for a good 6 %.

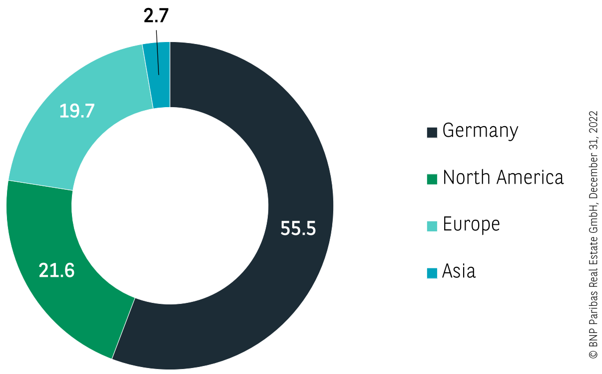
Investments by buyer group Q1-Q4 2022

in %

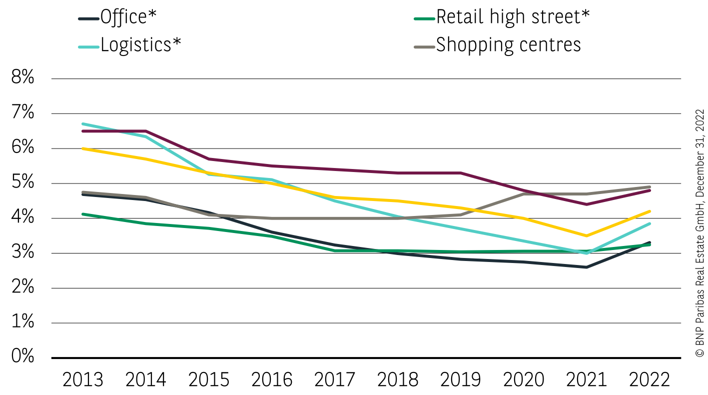


Investments by origin of capital Q1-Q4 2022

in %



Development of net prime yields



* Ø A-locations

BROAD DISTRIBUTION OF BUYER GROUPS

The turnover is broadly distributed across many buyer groups. Special funds, which were very active in almost all asset classes, led the way with 22.5%. Equity/real estate funds came in second with a good 17 %. This result reflects not least a number of larger mergers and acquisitions. But project developers also invested extensively, with a share of 10%, which indicates that they are convinced that the markets will continue to develop positively in the medium term. Foreign investors contributed 44.5 % to the result and were able to increase their share by almost six percentage points.

YIELDS CONTINUED TO RISE IN THE FOURTH QUARTER

Against the backdrop of further increases in key interest rates, it is not surprising that financing costs for real estate and thus yields also continued to rise in the fourth quarter. For office properties, net prime yields increased by around 30 basis points on average in the fourth quarter. Berlin and Munich lead the way with 3.20 % each. Hamburg and Cologne follow close behind with 3.30%. Frankfurt is currently at 3.35% and Düsseldorf and Stuttgart at 3.40%. The increase for inner-city retail buildings was somewhat more moderate. Here, 3.00% is assumed in Berlin and Munich, 3.15% in Hamburg, 3.30% in Frankfurt, 3.40% in Düsseldorf and Stuttgart and 3.45% in Cologne. For logistics properties, the prime yields nationwide have even risen by 50 basis points to 3.85%. Retail parks are currently listed 4.20 % and individual retail warehouses at 4.80 %. Shopping centres also saw a slight increase, so that they are now at 4.90%.

OUTLOOK

As expected, the fourth quarter was difficult. Financing costs and the ongoing pricing process in particular are reflected in low turnover. As this process is not yet complete, there is much to suggest that we will see a two-part investment year in 2023. The first half of the year is likely to still be characterised by rising key interest rates and financing costs. At the same time, it cannot be ruled out that Germany will slip into a slight recession. Based on this scenario, relatively moderate investment volumes are likely in a long-term comparison. In addition, there are many indications that an end to interest rate increases should be in sight from the second quarter onwards and that economic momentum will begin to improve. This will significantly accelerate the search for new price levels. Nevertheless, the transaction volume in 2023 as a whole will probably be lower than in previous years. The decisive reason for this is the significantly lower purchasing prices than in previous years, as the volume would fall even with comparable market dynamics. Furthermore, at least in the first quarter of 2023, a further slight increase in yields cannot be ruled out.

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