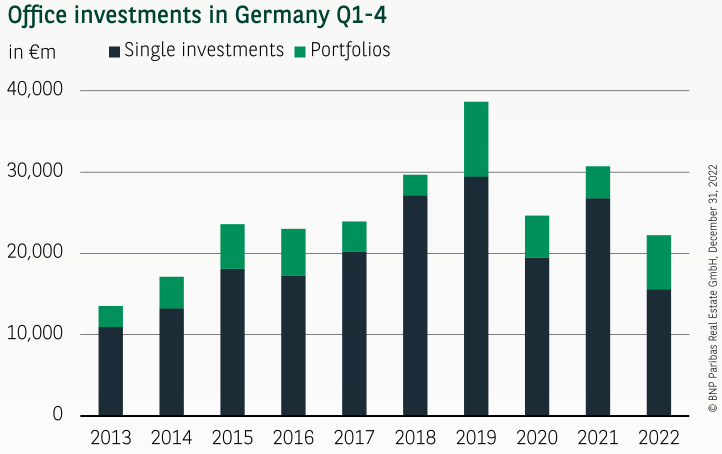
BNP PARIBAS REAL ESTATE

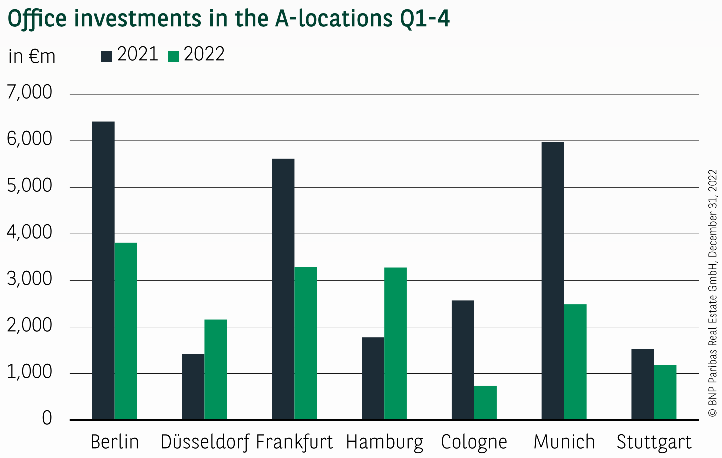
Real Estate for a changing world

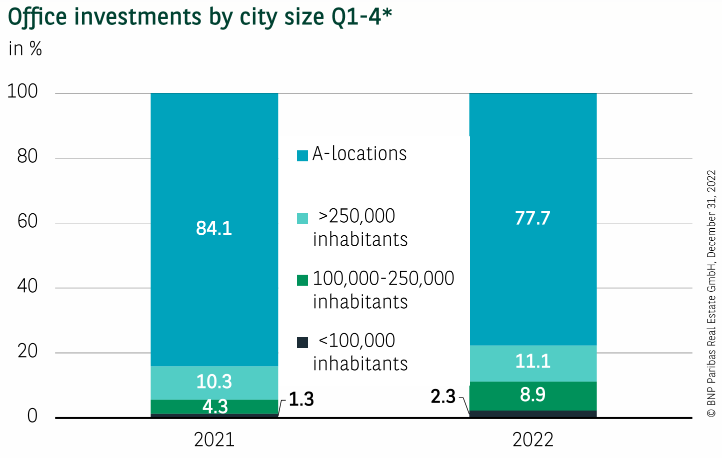
RESEARCH

At a Glance Q4 2022

OFFICE INVESTMENT MARKET GERMANY







* excl. portfolios

STRONG PREVIOUS YEARS LEVELS REMAIN UNACHIEVED

The investment volume for office properties totalled €22.3 billion in 2022. This fell short of the previous year's strong result by almost 28 % and the 10-year average by around 10 %. The development of the investment volume throughout the quarters makes it clear that investors confidence in the German office market remains very high, while the financing conditions, which have changed significantly since the end of February, are responsible for the considerably lower transaction volume. Despite ongoing uncertainties regarding work-at-home, the office investment market started the year with a record result of € 9.8 billion.Both in the portfolio segment (acquisition of alstria by Brookfield, Alphabet Portfolio) and in single investments, there was significantly more movement in Q1 than before. The third quarter was also still comparatively strong at €5.7 billion. It was not until Q4 that the market momentum slowed down again noticeably and a weak year-end of €3.4 billion was recorded. Rising financing costs have led to a significant slowdown, especially in the large-volume core segment.

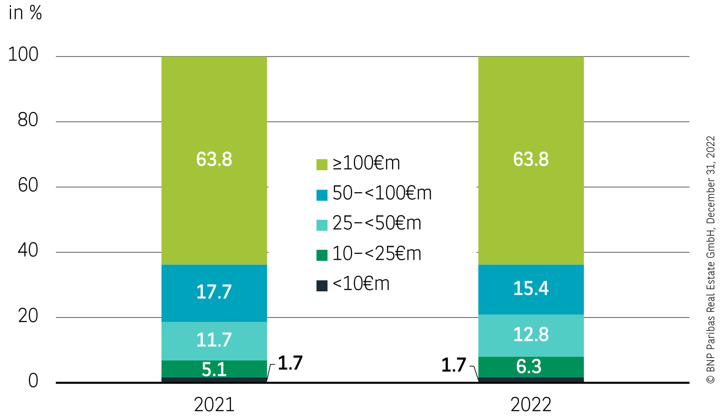
BERLIN REMAINS AT THE TOP

The A-locations account for a total office investment volume of almost €17 billion (-33% compared to 2021). Berlin once again leads the field of office hotspots with €3.8 billion. The capital benefited from various major transactions, including Norges' 50% stake in the Sony Center and the VoltAir, which was successfully brokered by BNPPRE. Frankfurt ranks just behind Berlin and ahead of Hamburg. Like the Hanseatic city, the banking metropolis achieved an investment volume of €3.3 billion. While the very good result in Hamburg is due in particular to the alstria acquisition, the Frankfurt result was driven by a large number of single transactions, whereby the number of so-called trophy assets was significantly below average. The Marienturm brokered by BNPPRE, which was also by far the largest transaction in the market, was the exception in the absolute prime segment in 2022. The lack of large-volume core properties is also responsible for Munich's weak performance with only 2.5 billion.

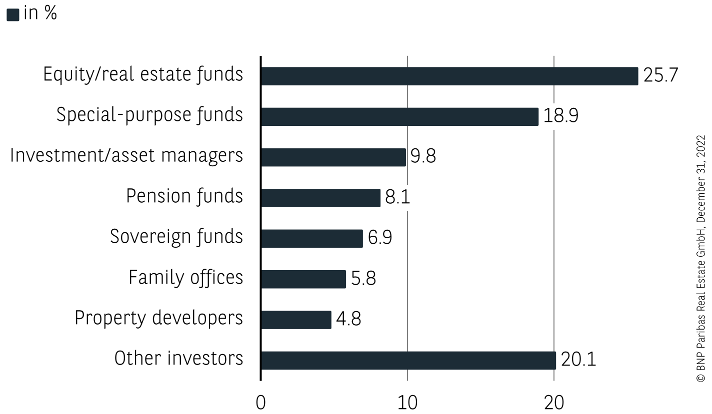
SMALL LOCATIONS GAINING GROUND

In contrast to the large cities, cities with less than 250,000 inhabitants were able to increase their investment volume in absolute terms (+16%). Here, the pricing phase in which sellers and buyers currently find themselves is already fairly advanced and purchase price negotiations are being concluded more quickly.

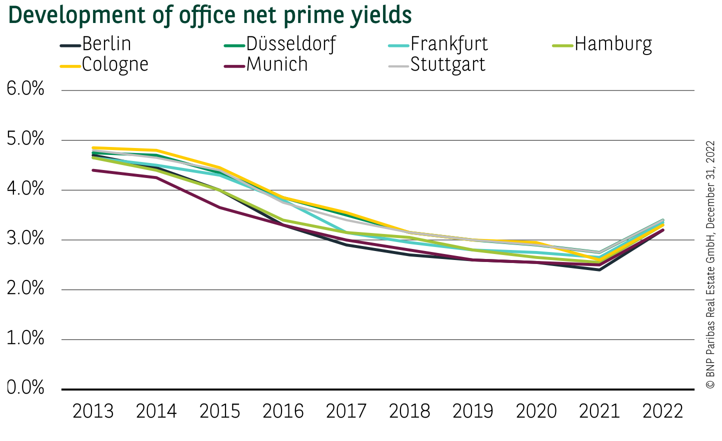
Office investments by € category Q1-4



Office investments by buyer group Q1-4



Development of office net prime yields



MINOR CHANGES IN THE SPLIT BY SIZE CATEGORIES

Despite the changed market environment, there is little movement in the investment volume by size category. As in the previous year, large deals account for a market share of almost 64 %. The alstria takeover with around €4.5 billion is a significant factor here, but also various portfolio transactions such as the Alphabet portfolio. In addition, more than 30 single deals with a volume of over €100 million were concluded. Contracts between € 50 and 100 million account for a market share of 15%. The market share of deals between €10 and 50 million has risen to a total of 19%. It is striking that the size category of €10 to 25 million has only lost just under 11% in transaction volume compared to the previous year. €1.4 billion was still invested in this segment.

EQUITY/REAL ESTATE FUNDS CLEARLY ON TOP

The alstria acquisition has a significant impact on the market shares by buyer group. Along with the Alphabet portfolio, this acquisition is primarily responsible for the leading position of Equity/Real Estate Funds with 25.7 %. In contrast, special-purpose funds were primarily active in the single transaction segment. Investment/asset managers also tended to invest in the small scale segment and recorded a volume of just under €2.2 billion or 10%. Driven by the investments of Norges (50% share in Sony Center and VoltAir) and GIC (90% share in Technocampus Berlin-Spandau), sovereign funds reach a record volume of €1.5 billion.

FURTHER YIELD EXPANSION

The yield expansion has also continued at the end of the year. On average, they rose by 30 basis points in the top locations in the fourth quarter. Berlin and Munich continue to be the most expensive markets with currently 3.20%, followed by Hamburg and Cologne with 3.30%. The prime yield in Frankfurt is now 3.35% and 3.40% in both Düsseldorf and Stuttgart. The figure for Leipzig is 4.00%.

OUTLOOK

The coming half-year is likely to be overshadowed by a further economic slowdown as well as interest rate hikes and rising cost of financing. The market environment for investors should therefore remain challenging for the time being. Once the markets become more predictable, the process of finding new and fair price levels will accelerate and lead to increased investment activity, especially as the office occupier markets offer strong and convincing fundamentals. Investment momentum should accelerate significantly in the second half of the year. At the same time, a further yield expansion remains the most likely scenario, at least in the first quarter.

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