BNP PARIBAS REAL ESTATE

Real Estate
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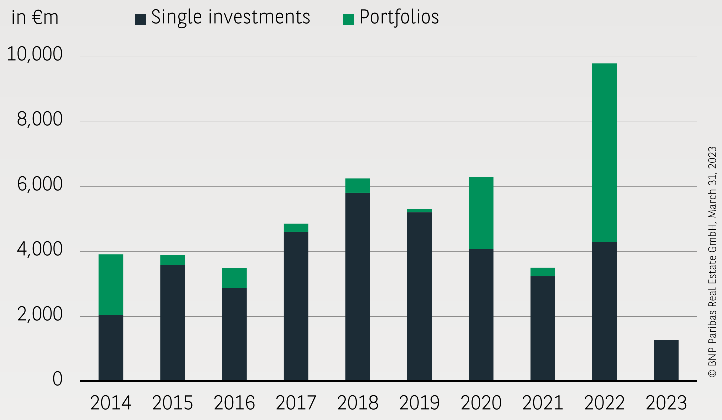
RESEARCH

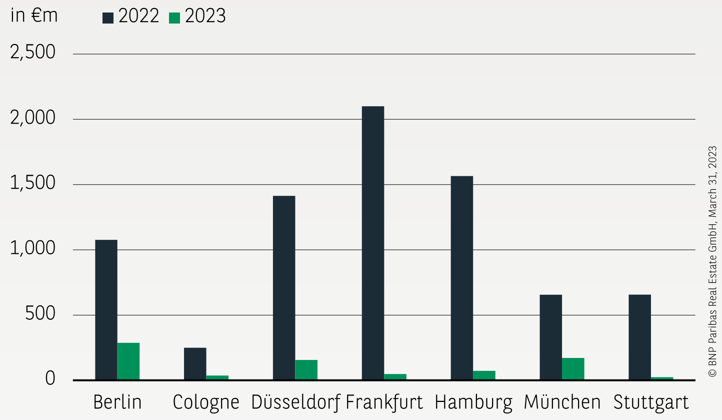
At a Glance Q1 2023

OFFICE INVESTMENT MARKET GERMANY

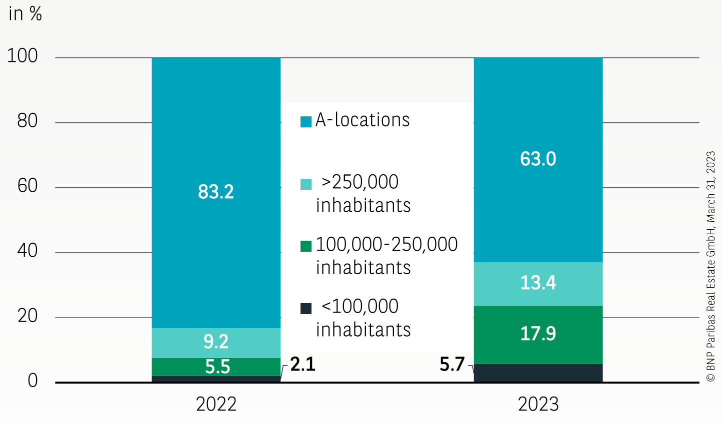
Office investments in Germany Q1



Office investments in the A-locations Q1



Office investments by city size Q1*



* excl. portfolios

CIRCUMSTANCES REMAIN CHALLENGING

Changing circumstances on the real estate markets, which had already led to significantly lower investment volumes by the end of last year, remain a market-dominating factor in 2023. Interest rate hikes, which have had a dampening effect on the financing environment, are the main reason for this. Due to the exceptionally low yields in previous years, the pricing phase in the office segment requires more adjustment than in other asset classes, and therefore transaction volumes remain at a very low level. Large-volume core properties in A-locations, which have contributed significantly to the good results in recent years, have been affected the most by the still ongoing price finding phase. Consequently, first quarter investment volume totalled just under €1.27 billion. With a share of only 25%, office investments have therefore lost their leading position to the retail sector (30%). On top of this, the prevailing uncertainty about further economic development and the expected performance of the occupier markets are causing some caution on the part of investors. Aside from that, no portfolio transaction has been concluded so far.

ALMOST NO BIG-TICKET DEALS IN THE A LOCATIONS

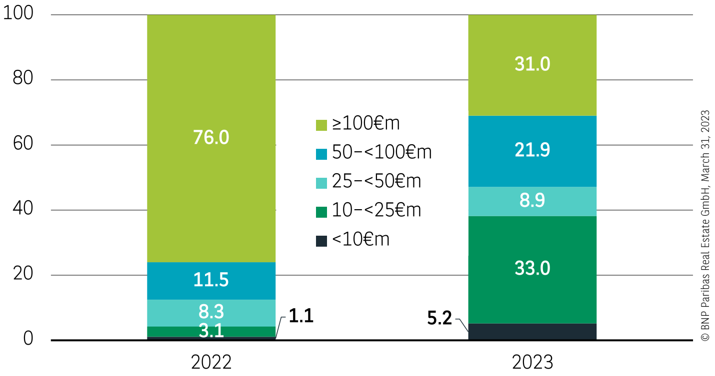
The current situation on the markets is reflected especially in the results of the A-locations, where all of them recorded very considerable declines in volume, since they primarily lack high-volume transactions and, unlike in previous years, there were no proportionately included portfolio deals. In total, only two deals over €100 million have been recorded in the first three months of the year. Despite the difficult circumstances, Berlin has once again taken the lead among German top-cities with €287 million. Munich (€172 million) and Düsseldorf (€156 million) also achieved triple-digit results. In all other cities, only a few deals could be recorded, resulting in significantly lower volumes. The following investment volumes were registered in each case: Hamburg (€73 million), Frankfurt (€48 million), Cologne (€37 million) and Stuttgart (€24 million).

ISSUES MAINLY AT THE TOP- LOCATIONS

The significant decline in investment volumes is most notably a concern for the top cities and core assets, since the price adjustment process is more difficult and slower in these locations. This can also be seen in the decline of only 8% in cities with up to 250,000 inhabitants, whereas the decline in the top A-cities amounts to almost 78%.

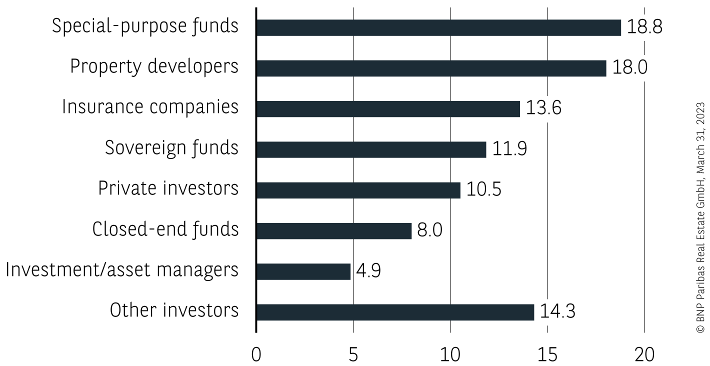
Office investments by € category Q1

in %

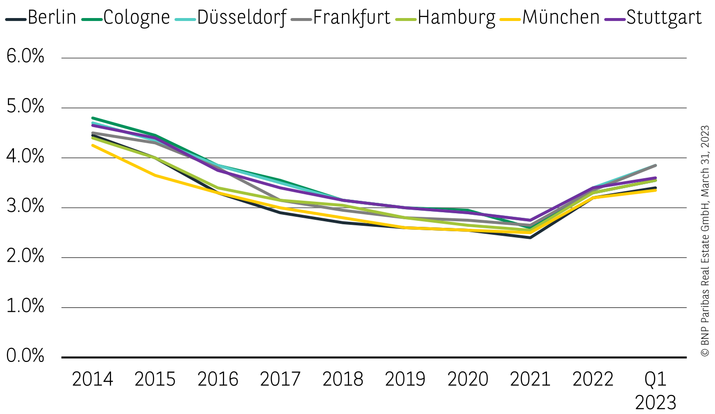


Office investments by buyer group Q1

in %



Development of office net prime yields



INCREASED VOLUME OF SMALLER DEALS

Due to the aforementioned situation, the investment distribution by size is significantly different than usual. While large deals above €100 million usually account for more than 45% of the volume, their share is currently only at 31%. In contrast, transactions between €10 and 25 million, contributed one third and in absolute terms even increased their volume compared to the previous years result. This shows clearly how the pricing process outside the core segment is already significantly more advanced.

FIVE GROUPS OF BUYERS WITH DOUBLE-DIGIT SHARES

Overall, a relatively broad spectrum of buyers stands out, with five groups accounting for double-digit shares. Special-purpose funds lead the board with just under 19%, slightly ahead of property developers with 18%. Insurance companies (just under 14%), sovereign funds (12%) and private investors (10.5%) rank behind.

YIELDS CONTINUED TO EXPAND AS EXPECTED

After the central banks continued hiking interest rates in 2023, purchase prices dropped once again. The net prime yield for offices has consequently increased by 20 to 50 basis points across each location. Munich remains the most expensive location at 3.35%, just ahead of Berlin at 3.40%. Hamburg and Cologne follow with 3.55%. Stuttgart quotes at 3.60% and Frankfurt and Düsseldorf both at 3.85%.

OUTLOOK

The office investment markets will continue to struggle with difficult circumstances in the coming quarters. The price finding process for a fair level which is acceptable to both sides will not be completed until the interest rate peak has not been reached and until there is no sufficient evidence of an economic upswing. Closely related to this is the further development of the occupier markets. These have to face various structural challenges, such as the growing share of remote work among large companies, a certain hesitation on the part of the public sector and unclear aspects regarding ESG. Nevertheless, positive signals should also be taken into account. This includes, for example, the chance that central banks could end interest rate hikes in the first half of the year, that business sentiment could improve incrementally, economic forecasts may been raised, and that inflation, although slowly, is falling. Given this situation, a significant improvement in the general conditions during the second half of the year cannot be ruled out. However, investment volume will be significantly lower this year compared to previous years.

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