BNP PARIBAS REAL ESTATE

Real Estate
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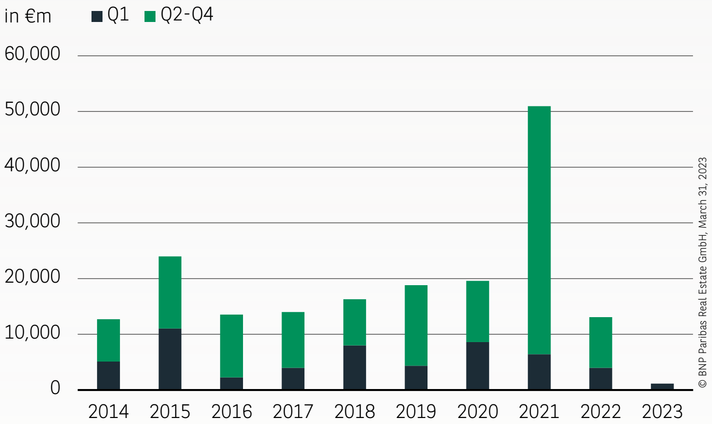
RESEARCH

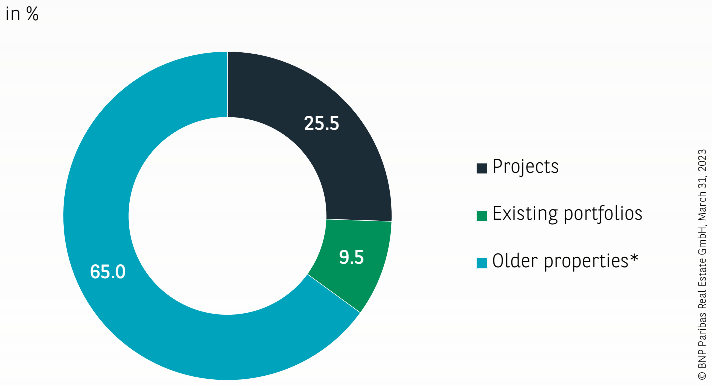
At a Glance Q1 2023

RESIDENTIAL INVESTMENT MARKET GERMANY

Investment volume residential portfolios

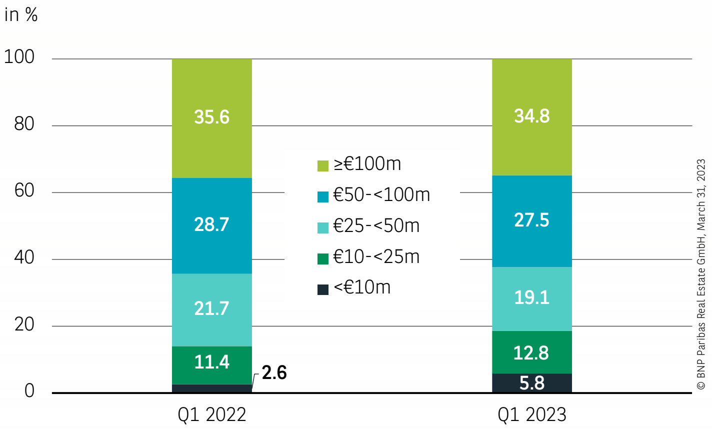


Investments by asset class Q1 2023



* Block sales in one location

Investments by size category



WEAK START TO THE YEAR 2023

In the first three months of 2023, the investment volume in larger residential portfolios (30 residential units or more) amounted to only around €1.15 billion, the weakest first quarter since 2011. The residential investment markets have carried the weak momentum from 2022 into the new year. The changed economic conditions, the interest rate turnaround with the resulting sharp rise in financing costs and the jump in inflation have left their mark on the financial markets and also put the otherwise so resilient German residential investment market into a new pricing phase. Furthermore, there are often significant price differences between purchase and sale requests. Large-volume transactions could therefore hardly be realised.

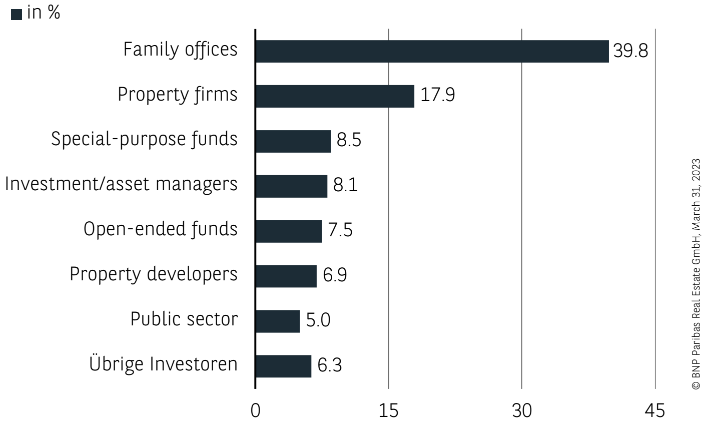
OLDER EXISTING PROPERTIES AND PROJECTS STRONG

The current small-scale nature of the market also has an impact on the distribution of the investment volume across the individual asset classes. The large-volume existing portfolios, which usually dominate the investment volume, only accounted for a share of just under 10% in the first quarter. On the other hand, almost two-thirds (65%) of the investment volume is accounted for by older existing properties, which is significantly above the 10-year average (15%). As much as €746 million (10-year average: €521 million) was invested in this asset class. One explanation for this is the tendency for older portfolio properties to be more sensitive to interest rates. Investors try to sell their older properties first in order to realise new, more secure opportunities. In contrast, projects and forward deals account for a relatively high share of almost 26% (average 10 years: 21%).

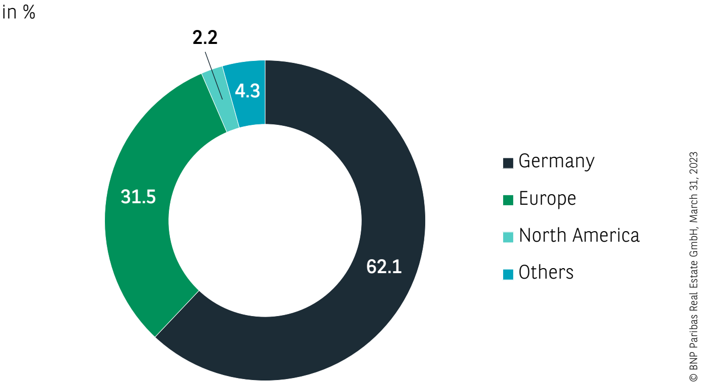
FEW BIG DEALS, MARKET CONTINUES TO BE SMALL

The low total volume is largely due to very low investment activity in the large-volume segment. Only two transactions were registered in the segment above €100 million, accounting for 35% of the total volume (10-year average: 58%). Nevertheless, the mid-sized deals (€50-100 million) with a share of 28% are clearly above the long-term average (16%). Overall, however, the market is still much smaller than in previous years. On average, only around €37 million was invested per deal. One reason for this is probably that institutional investors, who usually finance a large part through debt capital, are currently less active.

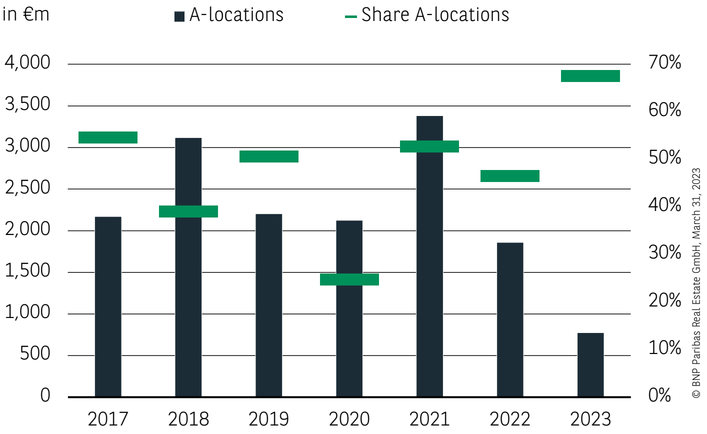
Investments by buyer group Q1 2023



Investments by origin of capital Q1 2023



Investment volume A-locations and share of total volume Q1



FAMILY OFFICES LARGEST BUYER GROUP

Two buyer groups, which normally only have shares in the single-digit percentage range, clearly dominated the market in the first three months: property firms with around 18% and family offices with 40% contributed well above-average shares to the investment volume. A major reason for the strong market presence of family offices is probably their good equity capitalisation. In recent years, real estate AGs/REITs (10-year-average: 36%) have strongly characterised the market. However, they did not appear as buyers in the first quarter. US investors remained largely absent from the market. They accounted for a below-average share of 2% (10-year average: 4%).

FURTHER INCREASE IN NET PRIME YIELDS

In addition to the interest rate hikes by the European Central Bank, financing costs also continued to rise. Mirroring this, the net prime yields for new construction properties also increased noticeably once again. The increase compared to the fourth quarter of 2022 was in the range of 15 to 25 basis points. Munich remains the most expensive location (3.00%). It is followed by Berlin, Frankfurt, Hamburg and Stuttgart at 3.05%. Düsseldorf and Cologne are currently priced at 3.15%.

INVESTMENTS MAINLY IN A-CITIES

Investors particularly sought out the safe environment of the A-cities. The seven largest cities accounted for a share of almost 68%. On average over many years, the A-cities have a turnover share of around 42%. One possible reason for this could be the more stable investment environment in the A-cities and the tendency towards somewhat simpler pricing due to a higher number of transactions. Berlin has a significantly above-average share of just under 48% (10-year average: 21%).

OUTLOOK

The first three months of the year show that the pricing phase on the residential investment market has not yet come to an end. There are currently few players who provide new price indications as market makers. The majority of buyers and sellers are still looking for a new price level that is acceptable to all parties in order to be able to successfully conclude transactions. In the further course of the year, declining inflation and more clarity regarding the course of the ECB's interest rate path can be expected. This should give market players more planning certainty again and prepare the basis for a significant increase in market momentum in the second half of the year. Nevertheless, it can be assumed that when the markets ramp up, acquisitions will probably continue to be made very selectively at first. Large-volume transactions are therefore likely to remain rare for the time being.

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