BNP PARIBAS REAL ESTATE

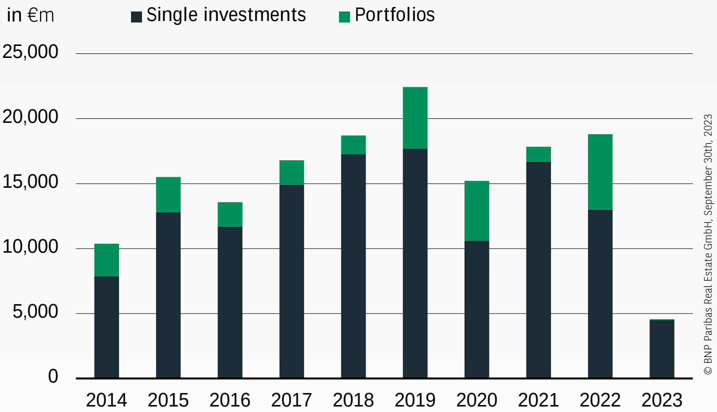
Real Estate for a changing world

RESEARCH

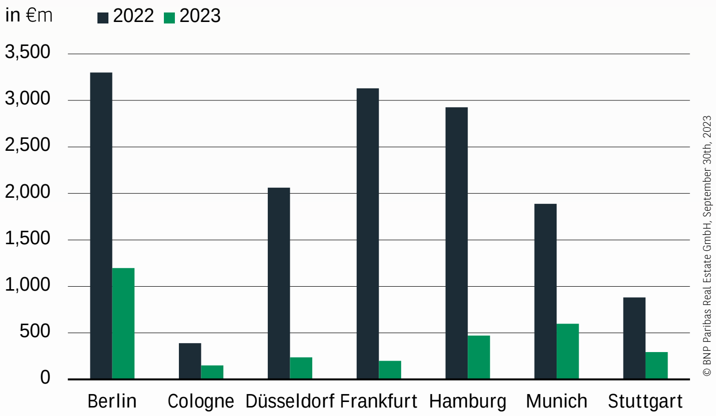
At a Glance Q3 2023

OFFICE INVESTMENT MARKET GERMANY

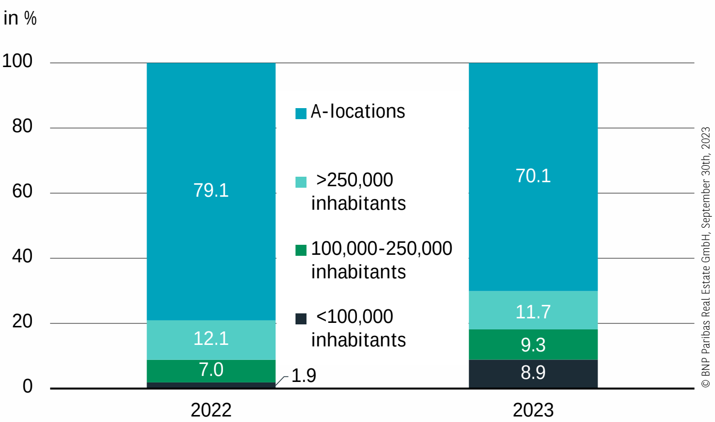
Office investments in Germany Q1-Q3



Office investments in the A-locations Q1-Q3



Office investments by city size Q1-Q3*



* excl. portfolios

CONSOLIDATION PHASE SLOWS DOWN OFFICE INVESTMENTS

The office investment markets are still in a consolidation phase after the first nine months. In addition to the high cost and difficulty of obtaining debt capital and the still incomplete pricing phase, the stuttering economic engine is also hampering investment activity. At just under € 4.6 billion, the transaction volume was therefore weak, as expected, and 76% below the comparable figure for the previous year. The ten-year average was also significantly undercut by 70%. Nevertheless, office properties remain the most important asset class with a share of 28% of the total investment volume. The reasons for the low transaction volume are in particular the lower corporate investments in the context of a sluggish economy as well as more difficult and more expensive equity and debt capital procurement. The more difficult financing environment is also clearly reflected in the almost complete absence of portfolio deals.

BERLIN LEADS BY A WIDE MARGIN

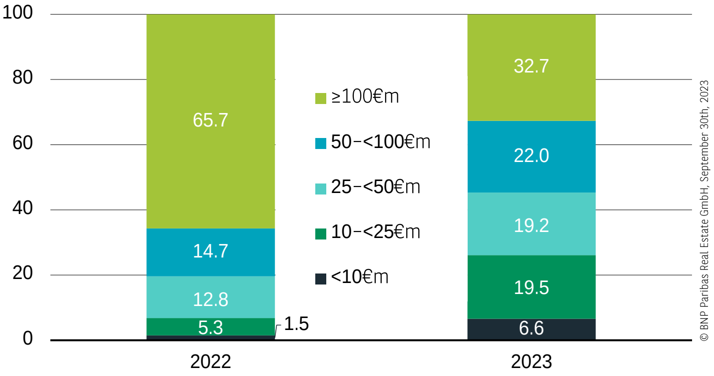
In the A locations, around €3.2 billion was invested in office properties in the first nine months. The decline in turnover compared to 2022 of around -78% is slightly above the decline in the national level (-76%). Although A-locations dominate the office investment markets, they currently account for a lower share of 70 % than in previous years (10-year average: 78%). The German capital Berlin dominated investment activity by a wide margin with a share of 26% of turnover nationwide. With €1.2 billion, Berlin was the only location to break the billion mark. It was followed by Munich with € 599 million, Hamburg with € 472 million and Stuttgart with € 294 million. Düsseldorf and Frankfurt recorded strong declines in volume of -88 % and -94% respectively, coming in at € 237 million and € 200 million respectively. Cologne achieved the lowest turnover of the A-cities with € 151 million.

SMALL CITIES SIGNIFICANTLY INCREASE SHARE OF TURNOVER

Compared to the previous year, a decline in transaction volume was observed in almost all city categories. Only in small cities with up to 100,000 inhabitants was the investment volume, at € 399 million, around 64% higher than in the same period last year. This could indicate that these smaller office markets are already in a later phase of the consolidation cycle and therefore a positive development of the investment volume can already be seen here again.

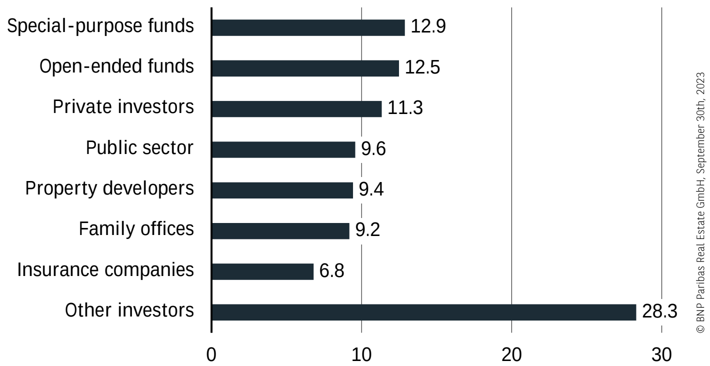
Office investments by € category Q1-Q3

in %

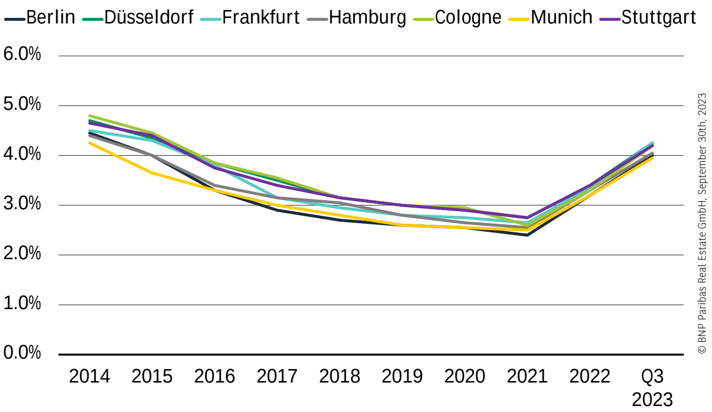


Office investments by buyer group Q1-Q3

in %



Development of office net prime yields



LARGE-VOLUME DEALS NO LONGER A REVENUE DRIVER

One reason for the weak performance is the lack of large-volume deals (>100 million), which only account for a share of just under 33% and, contrary to previous years, are not driving turnover. Turnover in this size category was around 82% below the long-term average. Characteristic of the smaller market is a shift in the distribution across the size classes and a relative increase in the importance of the smaller segments. The share of turnover of small office properties below € 10 million rose by 5.1 percentage points and by 14.2 percentage points in the size class of € 10 to 25 million. In absolute terms, the volumes in these two smaller segments are in the range of the previous year, but are still around 42% below the long-term average.

NO DOMINANT BUYER GROUP

Volume is distributed relatively evenly across the various buyer groups. Three investor groups account for double-digit shares of turnover. The highest share is accounted for by special-purpose funds with almost 13%, followed by open-ended funds with a good 13%, private investors with around 11%, the public sector with just under 10% and project developers and family offices with around 9% each.

FURTHER SLIGHT YIELD COMPRESSION

In addition to the further increase in key interest rates in the euro area, net prime yields also continued to rise in the third quarter. In the A locations, a yield compression of 25 basis points on average was registered compared to the second quarter. Stuttgart recorded the strongest increase (30 basis points) to currently 4.2%. By far the smallest increase (15 basis points) was in Hamburg, where the current rate is 4.05%. Munich thus remains the most expensive location at 3.95%, just ahead of the German capital at 4.0%.

OUTLOOK

The general conditions for the office investment markets will not change significantly in the final quarter. However, the current decline in inflation and clear signals from the European monetary authorities point to an approaching end to the current cycle of interest rate hikes. From today's perspective, sales are expected to increase slightly in the first half of 2024. From the second half of the year onwards, the economic recovery, the onset of catch-up effects and a financing environment with more planning certainty as well as rising rent levels should ensure a significant market recovery. In the medium term, the office property asset class should again offer attractive opportunities on the investment markets in the course of a general recovery on the real estate markets.

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