BNP PARIBAS REAL ESTATE

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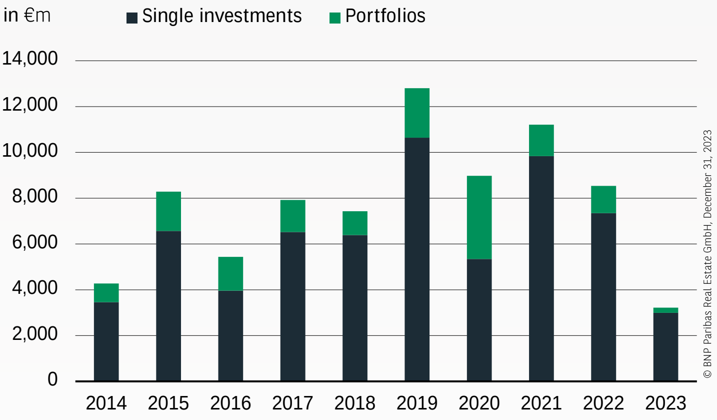
RESEARCH

At a Glance Q4 2023

INVESTMENT MARKET BERLIN

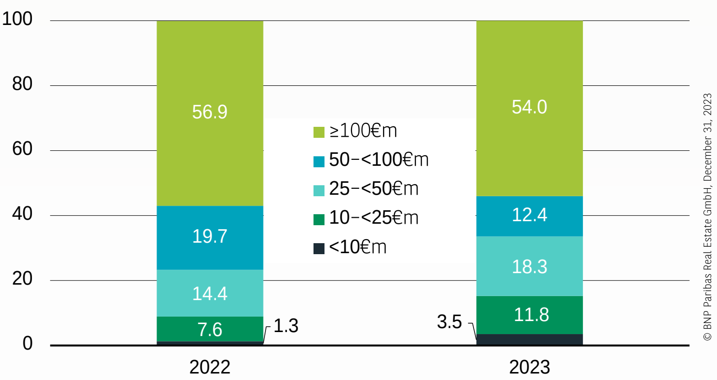
Investment volume

in €m



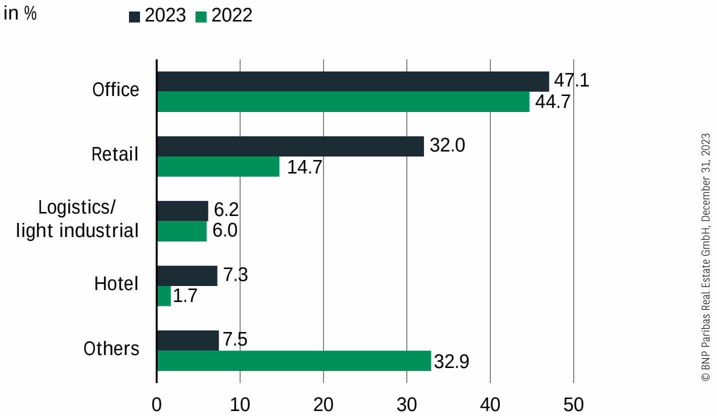
Investments by € category

in %



Investments by type of property

in %



STILL NO. 1 EVEN WITH LOWER INVESTMENT VOLUME

Berlin, the most popular German investment location, faced a challenging environment in 2023. The capital recorded a transaction volume of just over €3.2 billion for the year, which is a 62% decline compared to the previous year and almost 59% below the ten-year average. The result is similar to that of 2012 and 2013. A significant factor contributing to the high investment volumes in recent years has been a high number of large-volume core transactions, of which only a few have taken place in 2023. Berlin was particularly affected by the prolonged pricing phase in the office segment. Absolute volumes of large deals in the triple-digit million range fell by a good 64% compared with 2022. Despite this, Berlin maintained its top position in the nationwide ranking. The investment volume in Berlin is more than twice that of Munich, which is in second place. The largest deals include investments in KaDeWe, Mynd, and BEAM properties.

DECLINING TRANSACTIONS IN ALL MARKET SEGMENTS

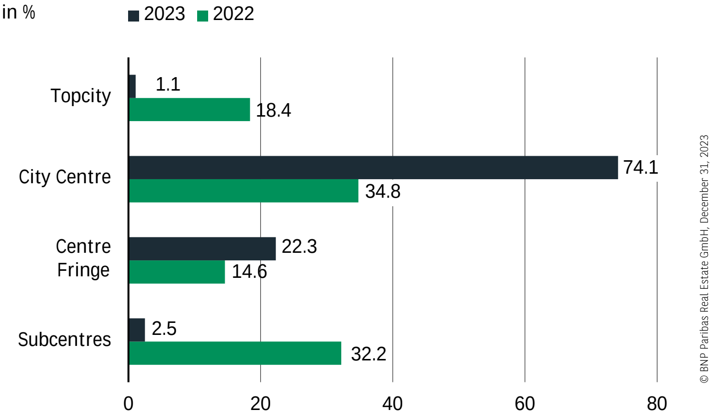
It is evident that external factors are mainly responsible for the moderate outcome. This is supported by the significant decline in volumes across almost all market segments. The relative size structure has only slightly changed, with the majority (54%) of investments being made in large properties over €100 million. Sales between €25 million and €50 million came in second place, accounting for just over 18% of the total. The categories of €50 million to €100 million and €10 million to €25 million each account for approximately 12% of total volume. However, all segments experienced significant declines in transaction volumes in absolute terms. Only deals of up to €10 million were able to maintain their turnover levels.

OFFICES REMAIN AT THE TOP

Despite the challenging financing environment, office sales remained the top asset class, accounting for approximately 47% of the total volume. It is important to note that large-volume office sales were particularly affected by the difficult financing environment. Retail property followed closely behind, with just under a third (32%) of the total volume. The investment in KaDeWe played a significant role in this. Hotels ranked third, contributing 7% to the result, and were the only asset class to increase absolute volumes by almost 60%. Logistics properties were also responsible for an additional 6% of the transaction volume.

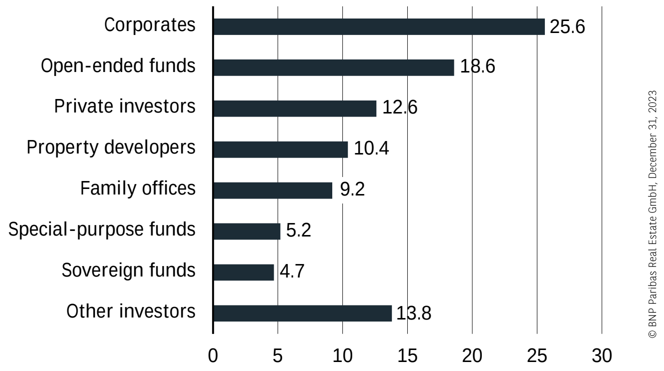
Investments by location

in %

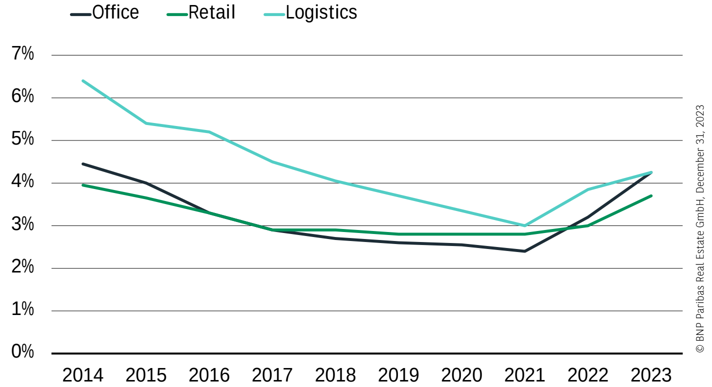


Investments by buyer group 2023

in %



Net prime yields by type of property



CONCENTRATION ON CENTRAL, HIGH-QUALITY LOCATIONS

The uncertainty of many investors about future economic developments and their impact on property markets is clearly reflected in the distribution of investments across the market area. Clearly, safe and central locations are currently favoured. Almost three quarters of the investment volume was invested in city centre locations. This is twice the long-term average (37%). The situation in subcentres marks exactly the opposite. On average, they account for 19% of the transaction volume over the long term. However, these locations currently only account for 2.5%.

FOUR BUYER GROUPS WITH DOUBLE-DIGIT SHARES

The composition of the buyers is somewhat unusual and mainly reflects the structure of the few large deals: Corporates are responsible for almost 26% due to the KaDeWe shares, followed by open-ended funds with just under 19%, which secured stakes in Mynd and Galeria Weltstadthaus. Not surprisingly, private investors are in third place with a share of almost 13%. They often operate with higher equity shares and are less dependent on interest rates. The same applies to family offices, which account for a good 9%. The relatively high share of project developers (10%) is pleasing and indicates that they continue to take a positive view of Berlin's long-term prospects.

AS EXPECTED YIELDS SLIGHTLY HIGHER

As expected, net prime yields rose again slightly in the fourth quarter, as the interest rate cycle of the major central banks was not yet fully completed. As a result, the net prime yield for offices rose by a further 25 basis points to 4.25%. Only marginal changes of 5 basis points to 3.70% were observed for city centre commercial properties. Logistics yields also rose by a further 15 basis points to 4.25%.

OUTLOOK

The Berlin investment market will continue to face a challenging environment in 2024, partly due to the fact that only a modest tailwind is expected from the economy. On the positive side, however, interest rates appear to have peaked and investors' planning security and confidence should rise noticeably. In addition, rents should continue to rise, creating attractive opportunities for investors, which will almost certainly help to revive the markets. Against the backdrop of the influencing factors outlined above, investment markets are expected to recover in principle in 2024, with a noticeable upturn in the second half of the year. Transaction volumes should increase compared with 2023.

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