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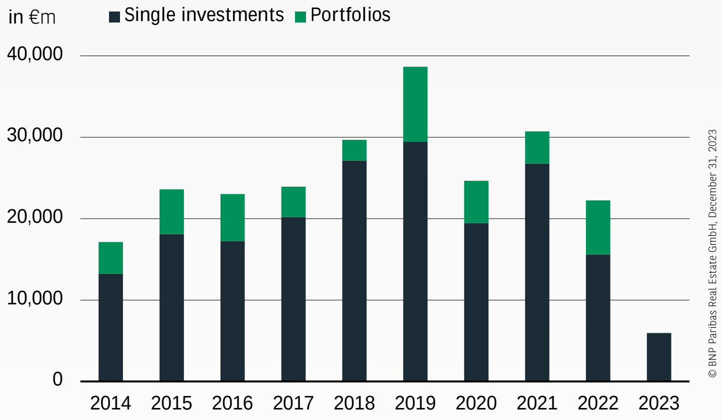
RESEARCH

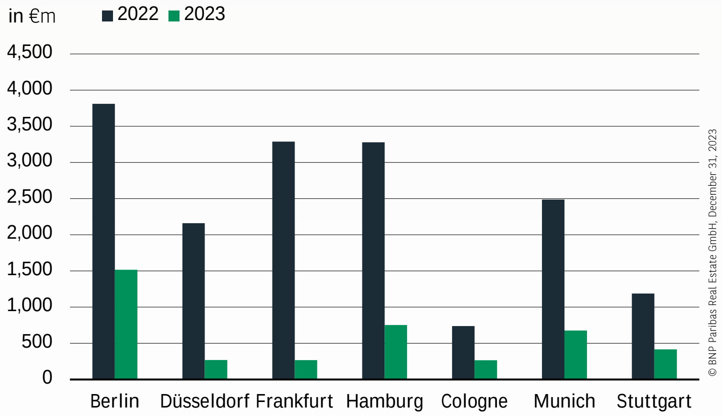
At a Glance Q4 2023

OFFICE INVESTMENT MARKET GERMANY

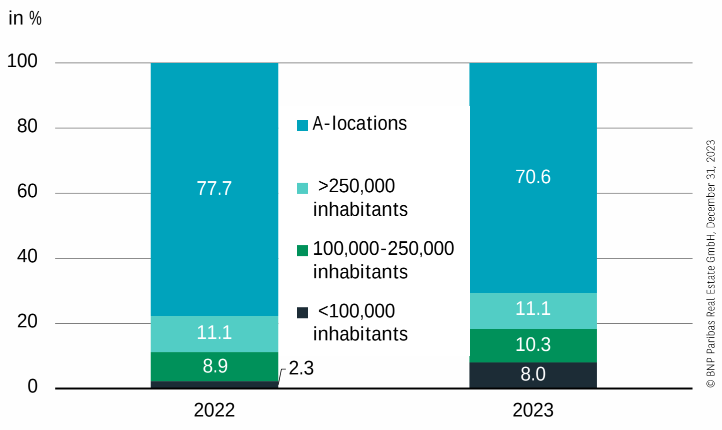
Office investments in Germany



Office investments in the A-locations



Office investments by city size*



* excl. portfolios

NO REVIVAL ON THE OFFICE INVESTMENT MARKET YET

In 2023, the investment volume for office properties in Germany totaled just under € 6 billion. It was therefore the weakest result for this asset class since the financial crisis, with a drop of around 73% compared to 2022. No other asset class recorded such a large year-on-year decline. Nevertheless, office properties still account for a market share of almost 26%. There are several reasons for the very subdued transaction activity in the office sector. Firstly, the necessary price adjustment was more pronounced and therefore more intensive than in any other market segment, and secondly, office space take-up always reacts very quickly and clearly to declining economic trends, meaning that the user markets also tended to send out negative signals. The low number of large-volume single deals and the almost complete absence of portfolio deals are the main reasons for the weak performance.

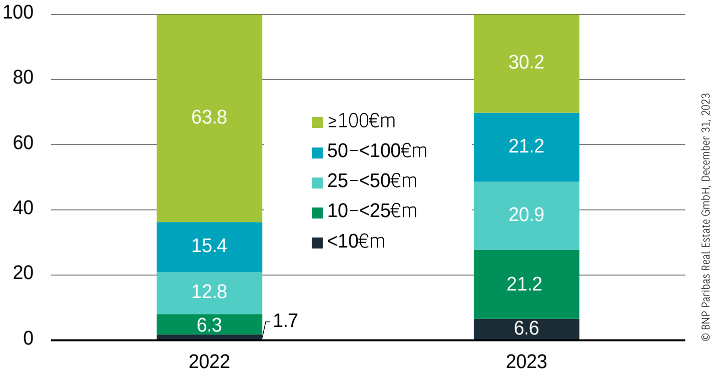
BERLIN CLEARLY IN THE LEAD

In 2023, just under €4.2 billion was invested in office properties in German A-locations, which is a 75% decrease compared to 2022. One significant factor in the top markets was the absence of major core transactions involving office properties throughout the year due to the necessary price adjustment following the significant rise in interest rates. Berlin once again led the field by a wide margin. The investment volume in this area totalled approximately €1.5 billion, which includes investments in the Mynd project, the BEAM office building, and the sale of a portion of the QH Crown project development. Hamburg surpassed Munich's transaction volume of €680 million, with an investment volume of around €750 million. With below-average volumes of just under €270 million each, Düsseldorf, Frankfurt and Cologne were almost on a par.

SMALLER LOCATIONS DISPROPORTIONATELY INVOLVED

As usual, the majority of the volume (71%) in 2023 was attributable to the A locations. In absolute terms, however, the €4.2 billion invested in the top cities is around two thirds below the previous year's figure. While the categories of cities with >250,000 inhabitants (-62%) and 100,000-250,000 inhabitants (-56%) also recorded noticeable decreases, smaller cities recorded a significant increase. At €472 million, around a third more was invested there than in 2022. Among other things, this is attributable to the fact that the consolidation cycle in the smaller office markets has progressed much faster in terms of pricing than in the top markets.

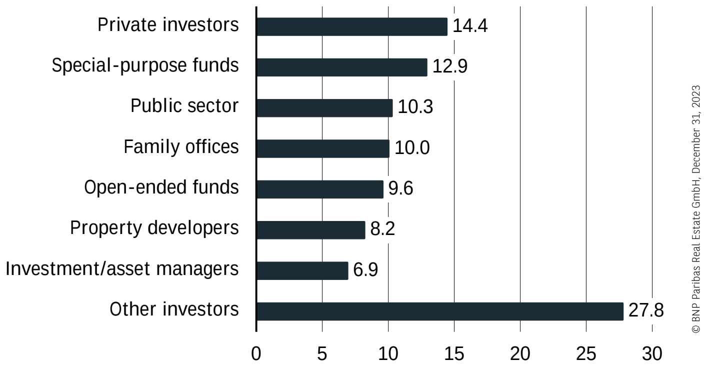
Office investments by € category
in %



GREATEST MARKET MOMENTUM IN THE MID-SIZE SEGMENT

In 2023, there were significant shifts in the investment volume by size category. There was a particularly sharp drop in momentum for deals with a volume of over €100 million each. Only 10 transactions in the three-digit million range were registered, including no portfolio sales. The mid-sized segment between €25 million and €100 million presented a much livelier performance with a good 42% market share. Nevertheless, a substantial decline in absolute transaction volumes was also recorded here. Due to the significantly advanced price adjustment process, the segment under €10 million even recorded a slight increase of 2% compared to 2022. The category between €10 million and €25 million was comparatively robust (-10%), with a significantly expanded market share of a good 21%.

Office investments by buyer group 2023
■ in %



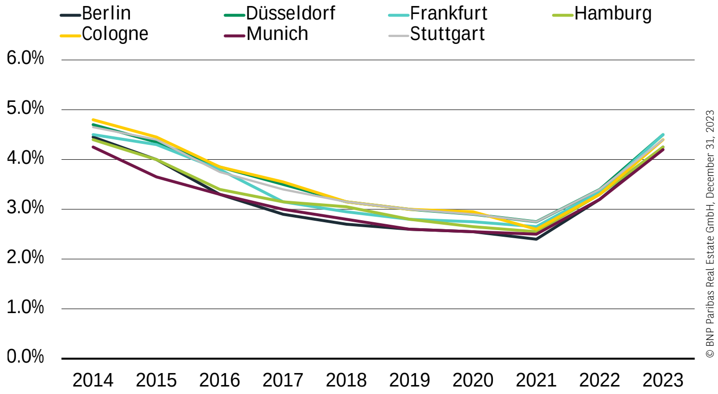
PRIVATE CAPITAL DOMINATES INVESTMENT ACTIVITY

The distribution of the investment volume among the individual buyer groups impressively reflects the changed financing environment. Private investors (14%) and family offices (10%), which often have a large amount of equity and are therefore less sensitive to interest rates, accounted for around a quarter of the cumulative turnover. The public sector was also disproportionately active, setting a record with €613 million.

AS EXPECTED PRIME YIELDS CONTINUE TO RISE

As expected, net prime yields rose slightly once again, as the interest rate cycle of the major central banks was not yet fully completed. On average, they have risen by 23 basis points in the A locations. Munich remains the most expensive location with a prime yield of 4.20%, followed by Berlin and Hamburg with 4.25% each. Yields have increased to 4.40% in Cologne and Stuttgart and up to 4.50% in Frankfurt and Düsseldorf.

Development of office net prime yields



OUTLOOK

The office investment markets will continue to face a challenging environment for the time being in 2024. The German economy is likely to only gather momentum slowly, which should have a positive impact on the user markets with a significant delay. Furthermore, the central banks have yet to make a final decision on the further development of interest rates. However, there are increasing positive signs that investment activity is on the rise again. These include the pricing phase, which is largely over, combined with the fact that there is broad consensus that interest rates have probably peaked. On the basis of improved financing costs, generally robust user markets with further rising rents, especially in the prime segment, attractive opportunities will also arise for investors in the core segment, which should contribute to a revival of the markets.

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