BNP PARIBAS REAL ESTATE

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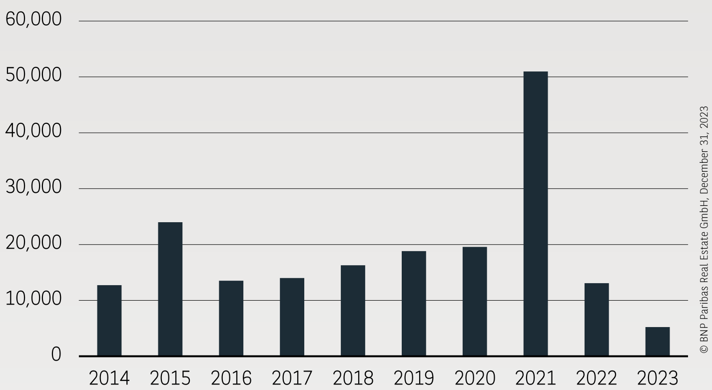
RESEARCH

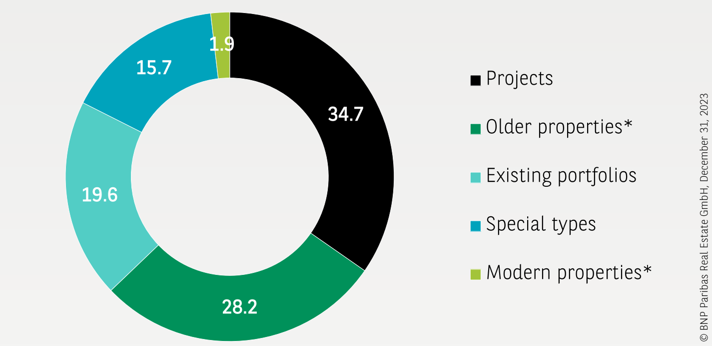
At a Glance Q4 2023

RESIDENTIAL INVESTMENT MARKET GERMANY

Investment volume residential portfolios

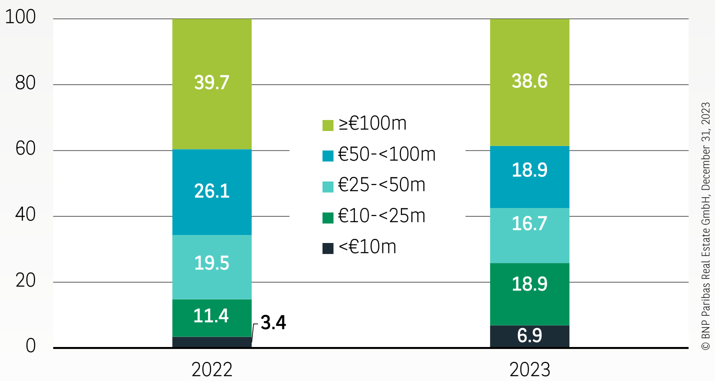


Investments by asset class 2023



* Block sales in one location

Investments by size category



YEAR OF HIGH CONSUMER RETICENCE

The German residential investment market was greatly impacted by increasing financing costs, low risk premiums compared to other similarly secure asset classes, and a significant rise in uncertainty regarding further regulation. Only € 5.23 billion was invested in larger residential portfolios (30 units or more) across Germany. This represents a decrease of 60% from the previous year. The investment volume was also at its lowest since 2010, undercutting the long-term average by 72%. The German residential investment market did not experience any significant recovery in the second half of the year. This was due to macroeconomic uncertainties, polycrisis-like effects, and the expectation of falling prices. As a result, investors were more reluctant to buy, and many projects were postponed or cancelled.

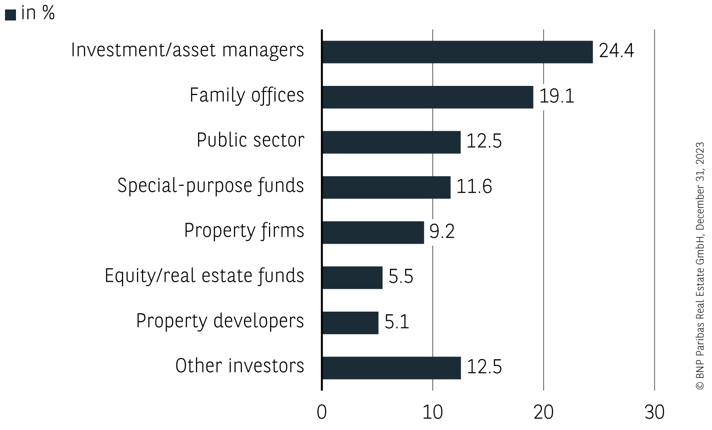
EXISTING PROPERTIES WITH 63% SHARE OF TURNOVER

The low number of large-volume transactions characterises the distribution of the investment volume across the individual asset classes. More than half of these are usually attributable (Ø 10 years: 54 %) to larger existing portfolios. However, these only contributed €822 million or just under 16% of total turnover in 2023. In contrast, both older existing properties at 35% (Ø 10 years: 16 %) and modern existing properties at 28% (Ø 10 years: 4 %) accounted for significantly above-average shares of turnover. The reluctance of institutional investors to buy is also evident here.

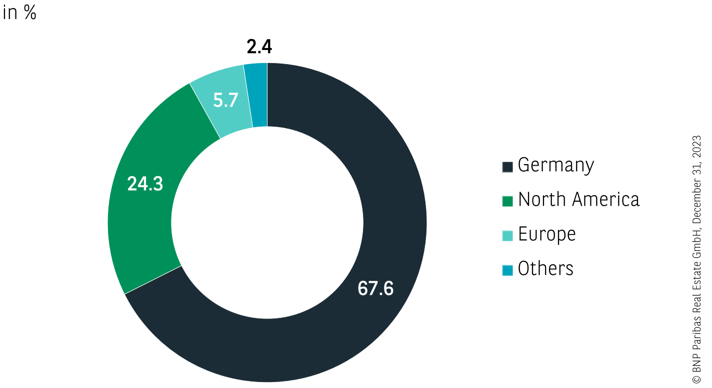
MARKET REMAINS SMALL-SCALE

Despite the great interest shown by institutional investors in value-add opportunities, no deals were realized in this area. As a result, many of the large-volume transactions that were initiated failed to close. It is worth noting that the segment over €100 million, which accounts for just 39% of turnover, is well below the long-term average of 57%. In comparison to the long-term average, the volume of €2.02 billion (7 registered major transactions in 2023) in this segment is very low. This is evidence of the limited involvement of institutional investors. In the past year, there were a relatively high number of small deals. The segment up to €25 million represented almost 26% of turnover (€1.35 billion), which is well above the average (Ø 10 years: 14%).

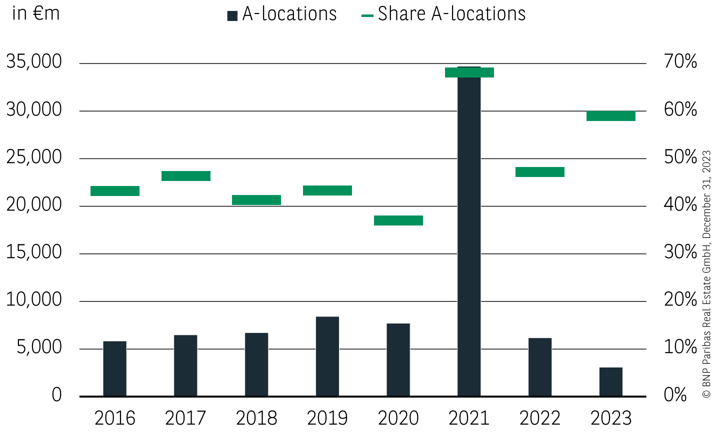
Investments by buyer group 2023



Investments by origin of capital 2023



Investment volume A-locations and share of total volume



US BUYERS AND FAMILY OFFICES SEIZE THE MOMENT

US capital is making an impressive comeback with an above-average share of around 24% (average 10 years: 6%). German capital contributes just under 68% of turnover, but no longer dominates the German residential investment market as strongly as in previous years (Ø 10 years: 76%). Family offices stand out particularly favourably in terms of demand. With an above-average turnover of € 997 million or 19% (Ø 10 years: 4%), they are the second strongest buyer group. Family offices can use their strong equity base to realise opportunities. On the other hand, Listed real estate companies/REITs were not active on the buyer side due to the often necessary and prioritised re-financing.

SLIGHT YIELD DECOMPRESSION COMPARED TO Q3 2023

In the final quarter, net prime yields for new-build properties experienced a slight increase compared to Q3 2023. Munich and Berlin remain the most expensive locations with yields at 3.60%, followed by Frankfurt (3.65%), Hamburg and Stuttgart (3.70%), Düsseldorf (3.80%), and Cologne (4.0%).

BERLIN WITH 35% SHARE OF TURNOVER

The Big Six cities account for a significantly above-average share of just under 59% (Ø 10 years: 44%). With sales of €1.81 billion, Berlin is responsible for 35% of the total volume. At 14%, Munich has the second-highest share and, with a volume of € 716 million, is the only top German location to achieve a result above the long-term average (€ 581 million).

OUTLOOK

There are indications that the Fed and the ECB will lower interest rates this year. This will provide more certainty for market players. With rising rental yields and the prospect of falling government bond yields, risk premiums may increase compared to other safe assets, making residential investments more attractive. The residential investment market is expected to benefit from inflows of funds, known as 'dry powder', due to the anticipated fall in bond yields. Investment funds will need to rebalance more frequently. Additionally, the supply/demand ratio is expected to improve fundamentally due to the tight housing market and the looming slump in new residential construction. Sales are expected to rise slightly in the first half of 2024, followed by a significant increase in the German residential investment market in the second half of the year, in anticipation of an improving fiscal and economic environment.

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Further information BNP Paribas Real Estate GmbH | Christoph Meszelinsky, Head of Residential Investment | Phone +49 (0)211-52 00-00 | christoph.meszelinsky@bnpparibas.com
www.realestate.bnpparibas.de