GERMANY

REPORT

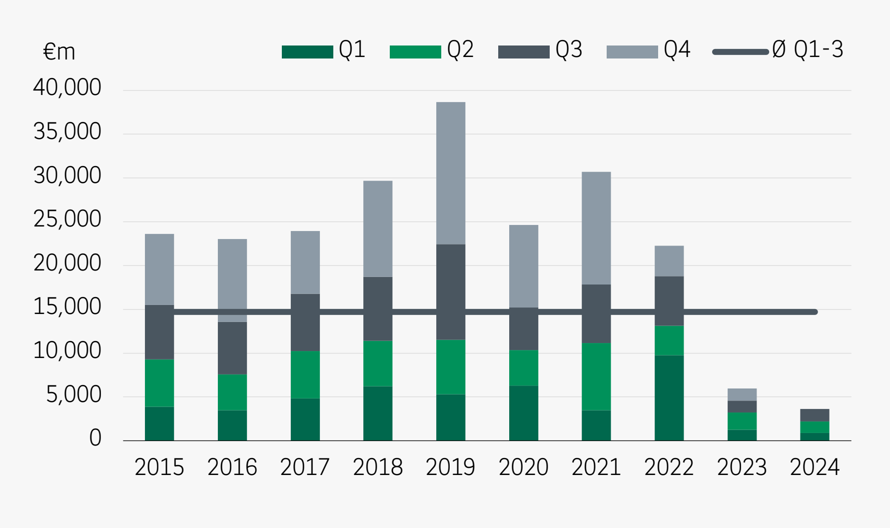
OFFICE INVESTMENT MARKET

Q1-3 2024

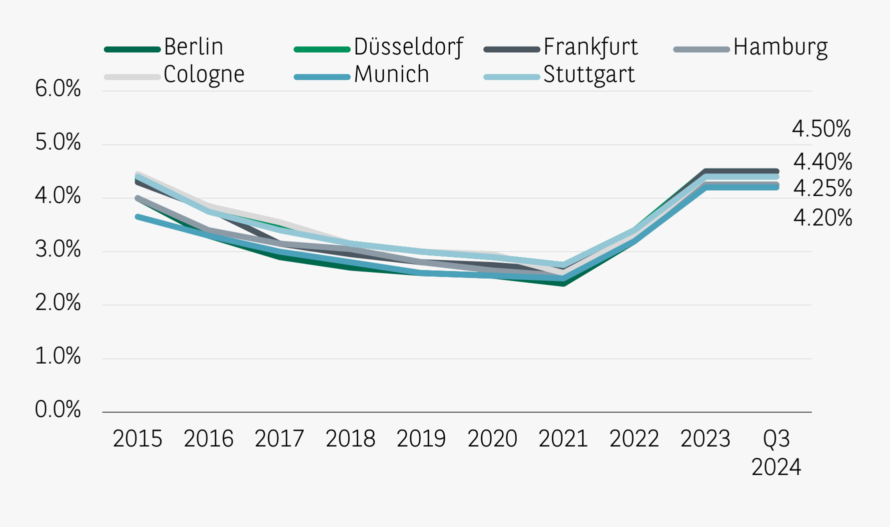
BNP PARIBAS REAL ESTATE

REAL ESTATE for a changing world

Development of office investment volume



Office net prime yields in A-locations



OFFICE INVESTMENT MARKET STILL WITH ONLY SLIGHT MOMENTUM

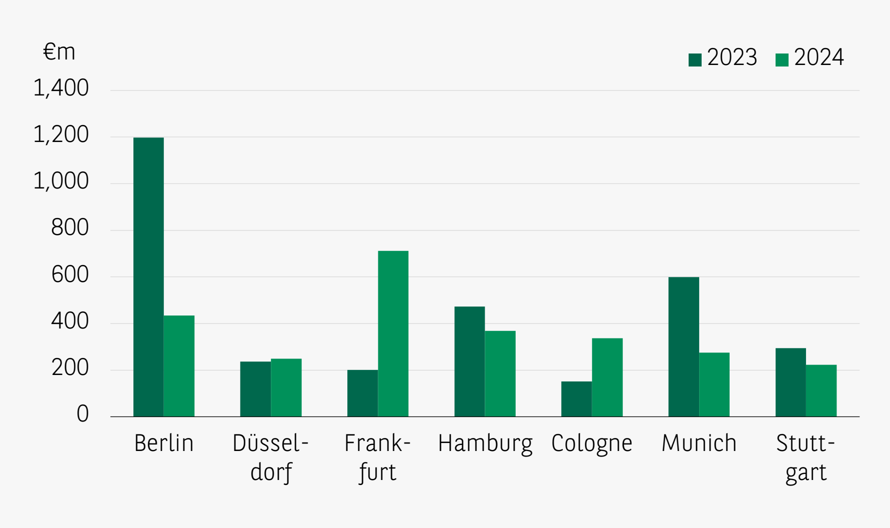
- By the end of the third quarter of 2024, around €3.6 billion had been invested in office properties in Germany. This represents a further decline of around 20% compared to the already very subdued result of the previous year. Meanwhile, the 10-year average was undercut by around three quarters. The bottom line is the lowest result since 2009. In contrast to the other major asset classes of retail, logistics and hotel, the office segment has not yet seen any recovery, which means that it currently has a historically low market share of only around 20%.

- This weak performance is largely due to the virtual absence of large-volume transactions, particularly in the portfolio segment. Individual deals currently account for more than 90% of the volume. The largest registered deal of the year was the acquisition of the Rossio development by the City of Cologne for around €270 million from the public sector for its own use. In total, only three transactions above €100 million have been recorded to date.

- The office segment in particular is currently suffering from the economic headwind and the gloomy mood in the economy. For many investors, it is difficult to assess how demand for office space will develop in the future, although the letting markets are already sending the first positive signals again with rising take-up in the third quarter.

- Meanwhile, the price adjustment processes have lost momentum, meaning that a stabilisation has set in in the prime segment. The average net prime yield for offices in the A-locations is 4.36%. Munich remains the most expensive location at 4.20%, followed by Berlin and Hamburg at 4.25%.

Office investments in A-locations Q1-3

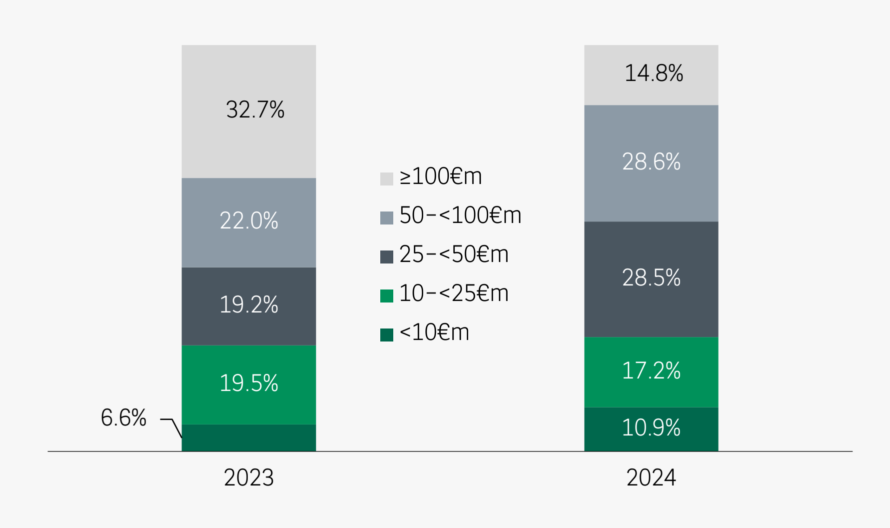


A-LOCATIONS ALSO 20% BELOW PREVIOUS YEAR'S FIGURE

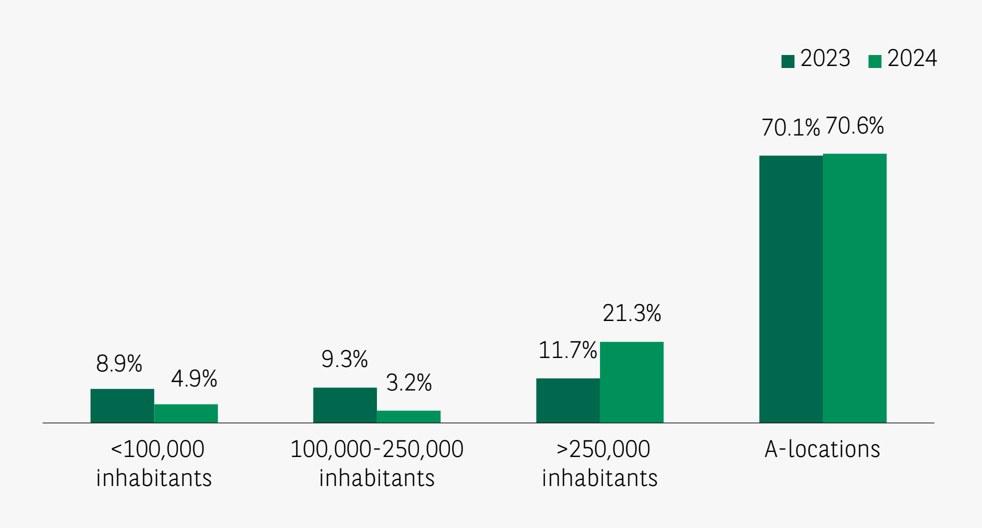
- In line with the nationwide trend, around a fifth less was invested in the A-locations than in the previous year, with a total volume of around €2.6 billion. At €711 million, by far the most was invested in Frankfurt. Berlin comes in second place with €435 million, followed by Hamburg (€369 million) and Cologne (€337 million). Meanwhile, the office investment volume in Munich (€275 million), Düsseldorf (€249 million) and Stuttgart (€223 million) is well below the €300 million mark.

- As in the previous year, the share of A-locations in the nationwide volume is around 70% and therefore below the long-term average (78%). Meanwhile, with a market share of one fifth, major cities with a population of more than 250,000 still account for a significant share of take-up, which is due not least to a number of core transactions with long income leases.

Office investments by € category Q1-3



Office investments by city size Q1-3*



*excl. portfolios

OUTLOOK

- Although the office occupier markets in the major cities have demonstrated their resilience in an almost impressive manner in a persistently challenging economic environment and scored points with take-up above the previous year's level, investors continue to lack confidence in the office asset class for the most part. The positive, albeit still hesitant, signals from the office market are not yet being picked up by investors.
- Among the aspects that speak in favour of the relative strength of the German office markets, which should not be underestimated, are the low vacancy rates, particularly in an international comparison, the very low supply of space, especially in the premium segment, the sharp rise in prime rents, the upward trend in average rents, the positive office employment forecasts and the recent resumption of large-scale lettings at close intervals throughout Germany. They are evidence of a return of confidence in the office, also on the occupier side.
- The combination of factors outlined above is not yet sufficiently pronounced at the moment to noticeably revive transaction momentum across the board and ensure a year-end rally. The economic tailwind is still lacking for the time being.
- However, the stable prime yields over the course of the year indicate that the pricing phase has come to an end and that the cyclical trough in both transaction volumes and yield levels has most likely been reached. The turnaround in interest rates heralded by the ECB and FED should ensure more attractive financing conditions, an economic boost and increasing momentum on the office investment markets.

Key facts office investment market Germany

INVESTMENT VOLUME	Q1-3 2023	Q1-3 2024	CHANGE
Total (€m)	**4,564**	**3,634**	**-20.4%**
Portfolio share	1.5%	8.6%	+7.0%pts
Share above €100 million	32.7%	14.8%	-17.9%pts
Share of A-cities	69.0%	71.5%	+2.4%pts
Share of foreign investors	18.4%	9.2%	-9.1%pts

NET PRIME YIELDS	Q3 2023	Q3 2024	CHANGE
Berlin	4.00%	4.25%	+25bps
Düsseldorf	4.25%	4.50%	+25bps
Frankfurt	4.25%	4.50%	+25bps
Hamburg	4.05%	4.25%	+20bps
Cologne	4.20%	4.40%	+20bps
Munich	3.95%	4.20%	+25bps
Stuttgart	4.20%	4.40%	+20bps

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