STRONG INCREASE IN OFFICE INVESTMENTS

Nationwide investment in office properties in the first three quarters of 2012 totalled around 6.27 billion €. That corresponds to a year-on-year rise of 50%. So office assets have impressively continued the trend already apparent in the first half and with a share of some 42%, they are clear-cut leaders in the field of investment in commercial property. Apart from the two boom years of 2006 and 2007, no result on a similar scale has ever been achieved in the first nine months of a year. Following a somewhat reticent second quarter, turnover picked up again in the period July to September and with a total of 2.38 billion € actually exceeded the already very good performance of the first three months of the year (2.2 billion €). Single deals have accounted for more than 93% (5.83 billion €) of the aggregate volume, with portfolio sales making only a low contribution of slightly less than 7% (434 million €). It is hardly surprising to note that investors are continuing to focus strongly on high-grade products: around two-thirds of the office property transaction volume went into core or core-plus assets.

BIG SIX LOCATIONS DOMINATE THE MARKET

The very good result has been fuelled in particular by the key German office locations. The Big Six markets have so far generated office investment totalling 4.84 billion €, equivalent to an increase of 49% on the prior-year period. This means that the six most important cities together accounted for about 77% of the overall transaction volume. This is also the best performance ever registered for the first three quarters, again with the exception of the two boom years. There were, though, considerable differences between the individual office centres. Some cities actually posted lower year-on-year turnover figures. These were Hamburg, with 565 million € (-18%), Cologne, with 229 million € (-8%), and Düsseldorf, with 311 million € (-2%). The other locations posted growth, which was in some cases quite massive. Frankfurt generated an increase of 4% (902 million €). But the clear-cut winners up to now have been Munich, with turnover of 1.63 billion € (+138%), and Berlin, with 1.2 billion € (+172%). Both cities benefited from several large deals in the triple-digit million euro range. Examples include the sales in Munich of Allianz’s headquarters (about 320 million €) and of the Maximilianhöfe (approx. 270 million €) and the sale of the Rosmarin Karree in Berlin for slightly less than 120 million €. Parallel to the nationwide development, investment in smaller cities in Germany has also risen.
LARGE DEALS REGAIN SIGNIFICANCE

Compared with the same period last year, major deals upwards of 50 million € have been able to lift their share of the total transaction volume by nearly 12 percentage points to almost 54 % at present. While all the other size classes posted larger volumes in absolute terms, their relative shares decreased. In second place came the size category of 25 to 50 million €, with a share of just under 22 %, followed by deals of between 10 and 25 million € (over 15 %).

PRIVATE INVESTORS HEAD RANKING

Just as at the half-year point, private investors/family offices still head the ranking of the different investor groupings and have in fact increased their share of turnover slightly, to nearly 21 %. Just behind, more or less equal, come special-purpose funds with 12.5 % and closed-end funds with just over 12 %. All the other types of investors contributed less than 10 % each: insurances, pension funds, equity/real estate funds and project developers all achieved shares of around 8 %. The proportion of foreign investors is just under 24 %, which is somewhat lower than in the overall commercial property investment market (28 %).

PRIME YIELDS MAINLY STABLE

In the third quarter, prime yields largely remained stable. However, the strong interest shown by investors combined with the shortage of absolutely top properties has led to initial yields in Munich and Hamburg easing by a further 5 basis points. This means that Munich is still the most expensive location in Germany, with a net prime yield of 4.7 %. It is closely followed by Hamburg with 4.75 %. Other cities with yields of less than five percent are Frankfurt (4.9 %) and Berlin (4.95 %). Then come Düsseldorf, with a prime yield of 5.0 %, and Cologne, with 5.3 %. Since competition in the absolutely top segment remains very tough, the possibility that prime yields may ease somewhat further in isolated cases cannot be excluded.

END-OF-YEAR RALLY LIKELY

The outlook for the final quarter and thus for the performance of the year as a whole is very positive overall. There are already signs that several large and indeed spectacular deals in the triple-digit million euro range are imminent. These include the sale of the Welle in Frankfurt and Neues Kranzler Eck in Berlin. The total transaction volume for office properties in 2012 will not only be considerably higher than last year but will also represent the best result since 2007. Assuming that the currency crisis does not escalate, the prospects for office investments also look good in the medium term. By European standards, Germany offers stable economic and labour market conditions and this provides a good environment for doing business, especially for security-minded investors.