OFFICE INVESTMENTS SLIGHTLY DOWN ON LAST YEAR

With a transaction volume of just over 3.48 bn € in the first quarter, office investments once again headed the asset-class ranking by a wide margin. All the same, the turnover total was around 10 % lower than in the comparable period last year. Nevertheless, it exceeded the ten-year average by 26 % and represented the fourth-best result in the past ten years. The main reason for the moderate decline was the shortage of large core products in the major locations. In the first three months of this year, only three single deals in the triple-digit million euro range were registered, as against six last year. A factor that needs to be taken into consideration is that a disproportionately high number of transactions were finalised just before the end of last year. Single deals have accounted for just over 2.87 bn €, which is 20 % down on last year’s record result. The result obtained in the first three months must still be regarded as excellent, though, since it was the second-best opening-quarter performance ever registered.

Portfolio sales were actually able to step up their turnover appreciably, more than doubling it to 611 m €. And: investors are ready to purchase assets outside the core segment, something indicated by the fact that around two-thirds of the transaction volume was realised in the core-plus and value-add risk classes.

TOP LOCATIONS POST DECLINE IN TURNOVER

Together, Germany’s Big Six locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich) attracted investment of just under 2.2 bn €, that represents a fall of 27 %. Developments varied, however, between the individual cities. With a total of 598 m € (-39 %), Munich led the inter-city ranking. Second place was taken by the capital, Berlin, with 491 m € (-12 %), a result which actually conceals a slight increase in the volume of single deals. Close behind in third place came Hamburg with 476 m € (+9 %); it was one of three locations posting a year-on-year volume rise. Frankfurt, though, suffered a fall of 69 % by registering turnover of 278 m €. Appreciable increases, on the other hand, were reported by the two Rhineland metropolises of Düsseldorf und Cologne, both of which, however, had turned in relatively weak performances last year. Düsseldorf generated 201 m € (+102 %), Cologne 174 m € (+196 %).

In contrast, the B-locations developed positively. Taking just single deals into consideration, they were able to step up their share of nationwide turnover to more than 27 % (prior year: just under 19 %) with an aggregate transaction volume of 787 m €.

Office investments in Germany

Office investments in the Big Six Q1

Office investments according to city size Q1

At a Glance Q1 2016
OFFICE INVESTMENT MARKET GERMANY
Office investments according to € categories Q1

Office investments according to buyers’ groups Q1

Development of office net prime yields

BROAD SPREAD ACROSS ALL SIZE CLASSES
It is gratifying to note that just like the year before, all the size classes participated in the very good investment turnover. Sales in the three-figure million range defended their lead by obtaining a share of 30% of the total. Quite close behind came the 50-100 m € size class with a contribution of nearly 27%. In third place came the 25-50 m € bracket; at 22%, its share represented a year-on-year increase of 5.5 percentage points. But an extensive role in market activity was also played by smaller transactions of between 10 and 25 m € (14.5%) and below 10 m € (nearly 7%).

THREE INVESTOR GROUPINGS PARTICULARLY ACTIVE
Three types of buyers were particularly active in the field of office investments. As before, the field was headed – with just over 28% - by special-purpose funds. This designation frequently conceals other categories of investors, such as pension funds, insurances or savings banks, which often use such vehicles to participate in investment markets. A considerable way behind in second place in the ranking came equity/real estate funds with just over 16%; more than half of the capital they deployed went into portfolio deals. Completing the leading trio were investment managers, with just over 14%. Turnover shares of between 5 and 10% were also posted by pension funds (close to 9%), listed real estate companies (7.5%) and private investors, who once again performed strongly to gain slightly over 5%.

PRIME YIELDS STABLE AT START OF YEAR
After easing appreciably in the course of 2015, prime yields in the first quarter of this year remained stable. So the highest prices are, as before, those obtained in Munich, where the net initial yield is 3.65%. Equal in second place come Berlin and Hamburg, each with 4.00%. The figure for Frankfurt is 4.30%, which puts it just ahead of Düsseldorf, with 4.35%. Among the Big Six, Cologne remains the tail-ender, with 4.45%. So across the major office centres, the prime yield averages out at 4.13%.

OUTLOOK
The very promising start to the year, the bright economic climate and the still very attractive interest rate environment are factors which together suggest that the volume of investment in office properties can once again reach an outstanding level in the year as a whole. Bouncing this estimation is the fact that a whole series of large single deals and portfolio sales are currently at the concrete negotiation stage. However, whether or not it will prove possible to quite match the result achieved in 2015 will depend on the supply of assets coming onto the market in the months ahead. In view of the tough competition among buyers, the possibility of a further slight decline in yields cannot be excluded.