THIRD-BEST RESULT EVER

Nationwide investment in office properties in the first three quarters totalled close to 13.58 bn €. Although that fell around 12 % short of the exceptional prior-year figure, it was the third-best result ever registered and exceeded the ten-year average by a handsome 46 %. Taking just single deals into account, turnover so far has been the second-best ever, surpassed only by the record set in 2015. Where portfolio deals are concerned, though, the volume has declined by 30 %, due primarily to the insufficient supply. But the transaction volume in the single-deal segment would definitely also have been higher if more assets had been available, especially in the large-unit core and core-plus field. In the first nine months of this year, there were just 16 single transactions in the triple-digit million euro range as against 26 in the same period last year. That actually makes this year’s performance all the more remarkable, by long-term standards, too, since it points to substantial activity in the small and medium sized segments of the market. The number of sales of office buildings covered by this survey is around 420. That is on a par with last year’s figure and impressively highlights the undiminished scale of interest exhibited by investors.

DEVELOPMENT IN THE TOP LOCATIONS SIMILAR

The Big Six cities (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich) also registered a result that was very good in a long-term comparison but down on the prior-year total. At just 9.82 bn €, it fell 21 % short of the 2015 figure but was nevertheless the third-best turnover ever achieved. The large metropolises are suffering particularly from the bottleneck in supply. With the exception of Cologne, which lifted its transaction volume by 87 % to 1.00 bn €, all the cities posted year-on-year declines. The biggest turnover was registered by Frankfurt with just under 2.57 bn € (-25 %), with a substantial contribution of well over 600 m € made by the sale of the Commerzbank Tower. The only other city to pass the 2 bn € threshold was Munich, with slightly less than 2.08 bn € (-31 %). Berlin and Hamburg took third and fourth places, with 1.71 bn € (-28 %) and 1.64 bn € (-22 %) respectively. In Düsseldorf, turnover fell relatively moderately, by 11 % to 825 m €.

Outside the Big Six locations, large deals do not play such a significant role, and there, the development was different. Taking just single deals into account, the volume rose considerably: the prior-year total was lifted by 18 % to just over 2.7 bn €.
LARGE TURNOVER IN SMALL AND MID-RANGE SEGMENT

Although sales in the three-figure million euro range again accounted for the biggest slice of turnover, with almost 41%, their share slipped considerably year-on-year. The same applies to the second-biggest size class, of between 50 and 100 m €, which contributed slightly more than 20% to the total. In contrast, the mid-range brackets registered greater activity than before. Deals between 25 and 50 m € stepped up their share from 15 to almost 19%, while the 10-25 m € class expanded from 11 to 15%. And both categories attracted more investment year-on-year in absolute terms as well. Small sales of up to 10 m € maintained their volume but increased their share to just over 5%.

BROAD SPECTRUM OF BUYERS

The great interest in German office assets exhibited by investors is underlined by the breadth and diversity of the buyer groupings. In all, four categories of investors generated double-digit turnover shares. With almost 19%, the ranking is now headed by special-purpose funds, which often involve institutional investors using indirect vehicles to lift the real estate proportion of their portfolios. Next, with just over 15%, come pension funds, followed by investment managers. The leading quartet is completed by equity/real estate funds, which contributed more than 12% to the total. The remaining 39% of turnover was shared between all the other buyer categories.

YIELD COMPRESSION CONTINUES

Since demand remains strong and supply is too low overall, the third quarter saw yield compression being maintained. This is especially apparent in Berlin, where the prime yield now stands at 3.40% after falling by 70 basis points within the course of a year. That puts the German capital just behind Munich, where the relevant figure is 3.30%. In third place, as before, is Hamburg, with 3.65%, followed by Frankfurt, with 3.85%. But yields in the two Rhineland metropolises of Düsseldorf and Cologne have also slipped below the 4% mark, to 3.90% and 3.95% respectively.

OUTLOOK

The final quarter of the year can also be expected to feature strong demand and generally lively activity. The overall economic framework, with the lowest unemployment and highest workforce figures of the past 25 years, will play a decisive role in continuing to boost user markets and ensuring that office assets remain a distinctly attractive proposition for investors. Even though last year’s exceptional result is unlikely to be matched, there is a good chance that aggregate turnover in the year as a whole will be the third-best in the past ten years. Against this background, a further slight decline in yields is a possibility that cannot be excluded.