BEST OPENING QUARTER EVER

With an investment volume of some 1.4 bn €, the German capital broke all previous records to post a new high. This performance bettered the admittedly somewhat modest prior-year result by 84 % but also exceeded the long-term average by around 69 %. Particularly gratifying was the substantial contribution made by single deals, where the volume surpassed the 1-bn-€ threshold for the first time to set a new record of more than 1.1 bn €, equivalent to four-fifths of aggregate investment. The capital city also benefited from the comparatively strong presence of large-unit properties: four of the twelve triple-digit million-euro transactions registered nationwide were located in Berlin. They included the sales of the Rocket Tower and of the former Vattenfall headquarters. Despite the excellent start to the year, and the significant increase in volume, the Berlin investment market is still suffering from a shortage of product: if more assets had been available, a higher result would definitely have been conceivable.

BROAD BASIS OF DEMAND

The distribution of investment in terms of size categories reflects the underlying breadth of demand. In view of the four major deals mentioned above, the spread in the first three months was dominated by the class upwards of 100 m €, with a share of nearly 45 %. But buoyant activity was also evident in the mid-range category of deals between 25 and 50 m €, which accounted for almost one quarter of the total. The next-bigger and the next-smaller classes - 50–<100 m € and 10–<25 m € – each contributed between 12 and 13 %. The largest number of sales, though, was registered in the smallest segment, of up to 10 m € (turnover share: 6 %).

OFFICES REMAIN TOP ASSET CLASS

Office properties accounted for more than half of the overall result and thus remain by far the most important asset class in the Berlin market. Although their share slipped compared with last year, they actually attracted 45 % more capital in absolute terms. Hotels have also turned in a successful performance: not only did they attract considerably more investment than before, they were able to step up their share of the total to almost 13 % to take second place in the asset-class ranking. In third place came retail properties (10 %), followed by logistics complexes (6 %), which are still relatively scarce in the Berlin market.
Investments according to location in Berlin Q1 2017 in %

- Topcity: 2017 - 9.8%, 2016 - 24.6%
- City Centre: 2017 - 30.1%, 2016 - 45.8%
- Centre Fringe: 2017 - 13.0%, 2016 - 31.4%
- Subcentres: 2017 - 36.5%, 2016 - 36.5%

ALL AREAS IN DEMAND

One feature of the Berlin market is a wide spectrum of precincts spread across the whole of the market area and attracting a corresponding range of different investors. Accordingly, investment is not concentrated solely on the Topcity zones but – given an appropriate supply – can extend across all parts of the market. In the first three months of this year, though, two geographical categories stood out: the City Centre, with a share of around 46 %, and the subcentres, with some 31 %. The Centre Fringe accounted for around 13 % of the total. Because of the limited supply of assets in the Topcity, the volume generated there posted a year-on-year decline, in absolute terms as well (share: 10 %).

INVESTMENT MANAGERS BIGGEST BUYERS

In the Berlin market, the chief sources of demand are investment/asset managers, who are also a strong presence nationwide, and special-purpose funds. In the first three months of the year, the former grouping – active on behalf of a range of different market players such as pension funds, insurances or other funds – was responsible for about one third of aggregate turnover. Special-purpose funds took second place, with 23 %. The public sector (some 16 %), came much higher than usual, but this was primarily due to the purchase of the former Vattenfall headquarters by the BImA (Federal Authority for Real Estate Management). Just marginally behind came equity/real estate funds, with just under 16 %, the only other grouping to generate any notable volume. The proportion of foreign buyers was about 55 % and thus – typically for Berlin – above the nationwide average of 39 %.

YIELDS FALL FURTHER IN FIRST QUARTER

The first three months brought a continuation of the trend towards a decline in yields, prompted by the pressure of demand and the expectation of ongoing growth in rental prices. Year-on-year, the net prime yield for office buildings has slipped sharply, by 90 basis points to 3.10 %, with the opening quarter alone producing a fall of 20 basis points. No other German city exhibits a comparable development, no other city is more expensive. Retail/office properties in the best shopping streets command a yield of up to 3.30 %, but the prices for such properties can go higher in exceptional cases. Only in the logistics segment, where the net prime yield is 4.95 %, are prices in the German capital somewhat lower than in the other major locations.

OUTLOOK

Berlin is booming, more than anywhere else, and its momentum is only being curtailed by supply-side limitations. The steady inflow of new potential buyers helps to sustain the pressure of demand. If some large-unit assets come onto the market, there is a good chance that turnover could break through the 7-bn-€ threshold, thus producing one of the best results ever registered.