At a Glance Q1 2017
OFFICE INVESTMENT MARKET GERMANY

Office investments in Germany
In €m  Q1  Q2-4

Office investments in the Big Six Q1
In €m  2016  2017

Office investments according to city size Q1
In %

OFFICES GENERATE ABSOLUTELY TOP RESULT
With a transaction volume of close to 4.85 bn € in the first quarter, investment in office buildings also generated an exceptionally good result. It was in fact the best in the past ten years, and exceeded the long-term average by a handsome 84 %. Compared with the year before, it represented an increase of 39 %, which was just slightly lower than the year-on-year growth in commercial real estate investment overall. Nevertheless, offices once again formed by far the most favoured asset class, gaining a share of more than 38 %. In addition to the ongoing robust state of the investment environment, it was above all the very positive development of occupier markets that helped to strengthen the anyway strong confidence which investors exhibit in German office properties. One notable factor is that the high turnover was fuelled almost entirely by single deals: with a volume of around 4.6 bn €, they not only accounted for 95 % of the total but also set a new first-quarter record. This in turn reflects the large number of transactions in the triple-digit million-euro range – in the first three months all of nine of these were registered. Among the most important were the sales of the Rocket Tower and the former Vattenfall headquarters in Berlin, and of the HIGHRISE one in Munich. Portfolios, in contrast, accounted for only 247 m €, which is just under half the ten-year average.

KEY LOCATIONS ALSO PRODUCE MARKED INCREASE
The positive development also extended to the Big Six locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich), which were able to increase their prior-year result by 31 % to 2.9 bn €. The biggest volume of investment was registered by Munich, with 784 m € (+31 %), fuelled extensively by several major deals. In second place came Frankfurt, with 764 m € (+175 %), a result made all the more remarkable by the fact that it was achieved without any sales in the three-figure million-euro category. The bronze medal went to Berlin, with 712 m € (+45 %); this represented a new record. Appreciable growth was also registered by the Rhineland metropolises of Cologne (264 m €; +45 %) and Düsseldorf (240 m €; +19 %). The only city with lower turnover year-on-year was Hamburg, with 135 m €, (-72 %); this was mainly because the very strong final quarter of 2016 had left hardly any deals to be passed on into the new year.

Perceptible turnover increases were also noted by smaller cities of up to 250,000 inhabitants. They stepped up their share of the single-deal total from 6.5 % in the prior-year period to over 13 %, and with more than 600 m € also attracted substantially more capital than before in absolute terms.
No marked change in size-class spread

The size-class distribution of investment brought no sharp year-on-year changes. Even though there has so far not been any mega-deal, the abundance of large transactions meant that the category of sales upwards of 100 m € once again led the field, with over 29 %. Turnover shares similar to those in the first quarter of 2016 were also posted by the next-smaller size brackets of 50-100 m € (25 %) and 25-50 m € (24 %). Deals up to 25 m € generated a respectable 22 %, thus underlining the overall liveliness of market activity.

Three investor groupings with double-digit shares

In all, three investor groupings were able to generate double-digit shares of turnover in the first quarter. The clear-cut first place went to special-purpose funds, with 28 % of the total. Investment managers contributed just under half of that, producing a share of slightly more than 13 %. Both these groupings frequently operate on behalf of other buyers, like insurances, pension schemes or saving banks, which use such vehicles to invest in the market indirectly. In third place, with over 10 %, came pension funds. These three results together show that a substantial proportion of all the capital deployed originated from equity-rich core investors interested primarily in long-term security – and that speaks for offices as an asset class. All the other investor groupings have so far accounted only for considerably lower shares.

Further fall in prime yields

In the first quarter, yields continued their downward trail. At 3.10 %, the net prime yield for office buildings in Berlin is now 20 basis points lower than at the end of 2016. This means that the capital is now even ahead of Munich, which also registered a fall, to 3.20 % at present. The prime yield in Frankfurt has also slipped by 20 basis points, and now stands at 3.60 %. Hamburg, too, posted a decline, to 3.25 %. In Düsseldorf and Cologne on the other hand, the prime yields (each: 3.85 %) remained stable in the first three months of 2017.

Outlook

In view of the generally stable to good economic conditions, all the signs suggest that market activity will continue to be very buoyant in the months ahead. Another factor is that there are already a great number of large-unit deals on the horizon. There is also the fact that compared with the past two years, the supply of high-grade core properties has expanded quite notably.