The trend observed since 2012 towards a renewed focus on investing in office properties remained very much in evidence in the first quarter of 2014, with impressive results. Accounting for 3.9 bn € of turnover, this asset class bettered its very good prior-year total by more than 40 %. It also exceeded its long-term average by over 62 % and was by far the second-best performance after 2007. One reason for this is the resurgence of portfolio deals, which for several years had played a fairly insignificant role. The most noteworthy transaction in this connection was the sale of the so-called Leo I portfolio – comprising properties formerly owned by the federal state of Hesse. It was acquired for around 1 bn € by Patrizia AG and will be placed in a special-purpose fund. Nevertheless, at over 52 %, more than half of the total transaction volume was accounted for by single deals. What is particularly remarkable here is only two of the single deals were in the triple-digit million range. In other words, investors were especially active in the small and medium-scale segment, exhibiting a great deal of confidence in office assets against the background of the good to very good general economic forecasts for Germany.

Diverse developments in the top locations

In the Big Six locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich), the transaction volume rose by 11 % against the prior-year period to nearly 2.34 bn €. However, there were considerable differences between the individual cities. Düsseldorf experienced a dream start, with turnover more than trebling to 618 m €. There was also more investment in Frankfurt, pushing it to the top of the ranking with 628 m € (+62 %). Hamburg, too, registered positive growth: investment was 16 % up at 374 m €. The other cities reported year-on-year declines in office investment: Munich noted 361 m € (-40 %), Berlin 293 m € (-32 %) and Cologne just 64 m € (-68 %).

Substantial investment in office properties was also registered in B-locations and medium-sized cities. Single deals produced around 295 m € in cities with over 250,000 population and 138 m € in the 100,000-250,000 population category. However, smaller locations with fewer than 100,000 inhabitants attracted only just over 50 m € in investment.
LARGER DEALS MORE PREDOMINANT

Major sales over 50 m € accounted for a somewhat larger share of turnover than in the prior-year period. At over 65 %, it was nearly 13 percentage points higher than in the first quarter of 2013. The second-largest category - 25-50 m € – lost ground and achieved a share of only just over 13 % that relegated it to third place behind the 10-25 m € size category, which contributed almost 16 % to the transaction volume and more or less matched its prior-year result. The volume of smaller deals up to 10 m € was moderately recessive, making up less than 6 % of total investment.

TWO INVESTOR GROUPINGS PARTICULARLY ACTIVE

Many investors were active in the market but two types commanded the lead in terms of transaction volume. Special-purpose funds topped the table with a share of 37.5 %. It should be noted, though, that they are used as a vehicle for investment activities by a whole range of equity-strong market players such as pension funds, insurers, savings banks, etc. One example is the Patrizia AG special-purpose fund that purchased the Leo I portfolio and which contains a number of the above as investors. Second-placed in the ranking, with 21 %, were equity/real estate funds. This duo finished well ahead of third-placed open-ended funds, which contributed just less than 10 % of turnover.

FURTHER FALL IN PRIME YIELDS

Undiminished strong demand in conjunction with a still-limited supply of core properties caused prime yields in some locations to fall further in the first quarter, for instance in Berlin, Hamburg and Munich. Munich remains the most expensive city with a net initial yield of 4.30 %, ahead of Hamburg with 4.55 %. Behind the top two are Berlin with 4.60 %, Frankfurt with 4.65 %, Düsseldorf with 4.75 % and Cologne with 4.85 %. The average prime yield in the Big Six markets is 4.62 %, which is significantly lower than the average of the last ten years.

OUTLOOK

Not only the good start to the year but also the prospects for future office investment indicate the likelihood of a very good result for the year as a whole. Developments pointing to this include the brightening economic climate and the fact that preparations are ongoing for a whole range of major sales that will give a further significant boost to the transaction volume. Against this backdrop, there is certainly a realistic chance of last year's outstanding result being beaten again.