BNP PARIBAS REAL ESTATE

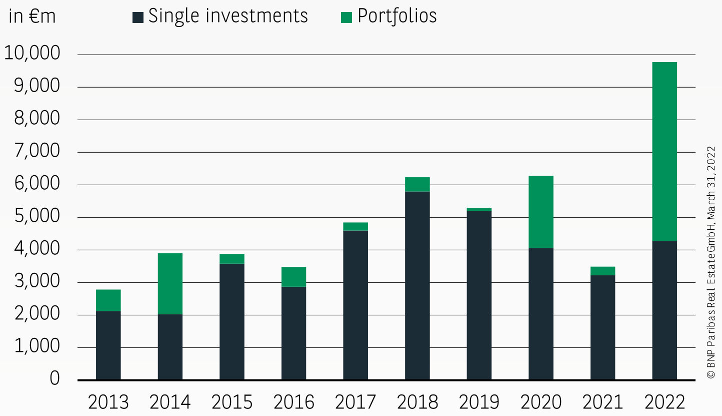
Real Estate for a changing world

RESEARCH

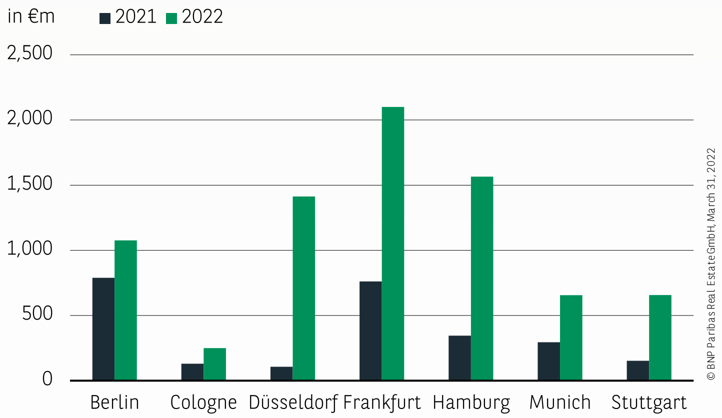
At a Glance Q1 2022

OFFICE INVESTMENT MARKET GERMANY

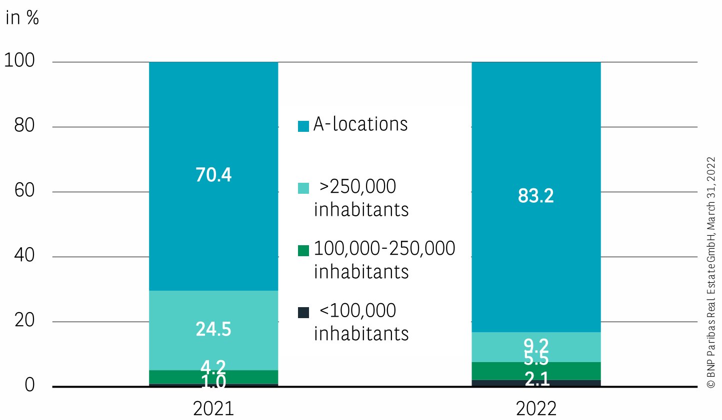
Office investments in Germany Q1



Office investments in the A-locations Q1



Office investments by city size Q1



OFFICE INVESTMENTS WITH RECORD RESULT

The German office investment market started the new year strongly. In the first three months of the year, about €9.8 billion was invested in this asset class, achieving a new record result. The relatively weak result of the previous year, which was still influenced by the Corona pandemic and its far-reaching lockdown measures, was exceeded by far (+180%) and it is almost twice as high as the 10-year average (just under €5 billion). In particular, the above-average performance of the portfolio segment is responsible for this result, especially the acquisition of alstria by Brookfield with a total volume of about €4.5 billion. However, even apart from this major transaction, there has been more movement in this segment compared with the previous year, which is underlined, for instance, by the Alphabet portfolio (around €500 million). In total, around €5.5 billion has been invested in office portfolios. At the same time, the investment activity in single investments has surged and, at almost €4.3 billion, is once again above the level of the first quarter of 2020 as well as one third above the long-term average.

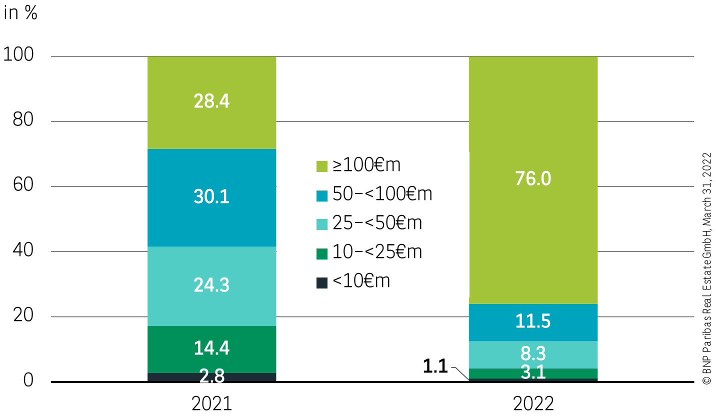
FRANKFURT AT THE TOP WITH EXCELLENT RESULTS

With a record volume of €2.1 billion, Frankfurt is well ahead at the top of the locations ranking. The banking metropolis can almost double its previous top value from Q1 2020, contributed not least by the €800 million transaction of the Marienturm brokered by BNPPRE. About €1.5 billion have been placed through single investments in Frankfurt. In contrast, second- and third-placed Hamburg and Düsseldorf achieved record figures of €1.5 billion and €1.4 billion as the result of mainly portfolio transactions. The other A-locations also recorded substantial increases, with Berlin (around €1.1 billion), Cologne (around €250 million), Munich and Stuttgart (each with around €660 million) also reporting an excellent first quarter.

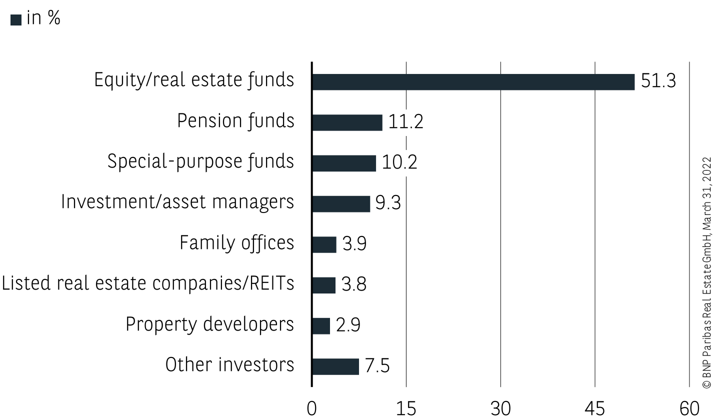
A-LOCATIONS REMAIN INVESTMENT TARGET NUMBER 1

With a market share of about 83%, the A-locations clearly dominate the market. Cities with a population over 250,000 lost considerably in both absolute and relative terms, with their market share dropping to just over 9%. A slight increase was recorded for cities with a population between 100,000 and 250,000.

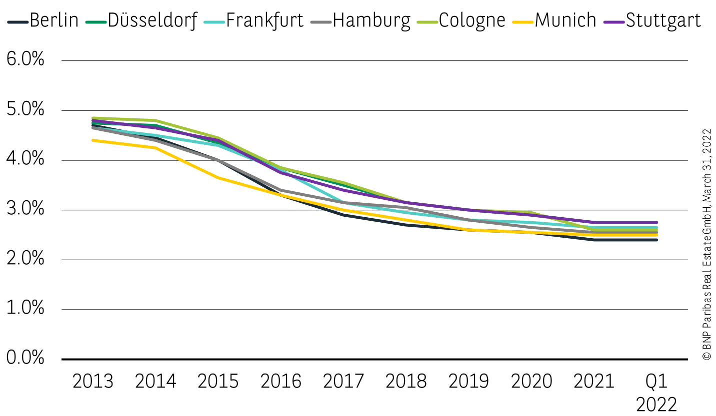
Office investments by € category Q1



Office investments by buyer group Q1



Development of office net prime yields



BIG DEALS DOMINATING MARKET ACTIVITY

So far, deals with an investment volume of €100 million and more have dominated market activity in 2022. They have contributed 76% or around €7.4 billion to the transaction volume so far, an unprecedented record high. Unsurprisingly, a large proportion of this (around €5.4 billion) was generated by portfolio transactions, although large-sized single investments also reached a top level of just under €2 billion. Although the market share of deals in the size category between €50 million and €100 million dropped from 30% to 11.5%, the total volume of about €1.1 billion represents the second-highest result of the last five years. The segment between €25 million and €50 million also lost considerable market share, even though the result of around €810 million was only 4% lower than in the previous year.

EQUITY/REAL ESTATE FUNDS CLEARLY IN THE LEAD

Both the Alphabet portfolio and Brookfield's acquisition of alstria are attributable to equity/real estate funds. These buyers are ultimately responsible for the current market share of 51% and the record volume of about €5 billion. Pension funds and special-purpose funds also contributed market shares of more than 10%. The pension funds therefore record an unprecedented volume of around €1.1 billion, which is not least attributable to the acquisition of the Marienturm from DWS for a pension fund. Special-purpose funds have invested just under €1 billion in office properties so far, which is roughly on a par with the long-term average. They were particularly active in the mid-size segment and account for a substantial number of deals.

PRIME YIELDS REMAIN AT A LOW LEVEL

While at the end of 2021, net prime yields in the majority of locations dropped once again, they have now moved sideways across all A-locations. Thus Berlin remains the most expensive location with 2.40%. Munich follows with 2.50% and Hamburg with 2.55%. Cologne (2.60%), Frankfurt (2.65%) and Düsseldorf and Stuttgart (2.75% each) also record stable values.

OUTLOOK

Office properties will continue to be the strongest asset class in the coming months. Investors once again underlined their trust in this asset class at the beginning of the year. Despite the certainly far-reaching geopolitical and economic uncertainties, this investment behavior is unlikely to change significantly in the short term. In terms of prime yields, a continuation of the sideways movement is the most likely scenario at the moment.

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