Real Estate
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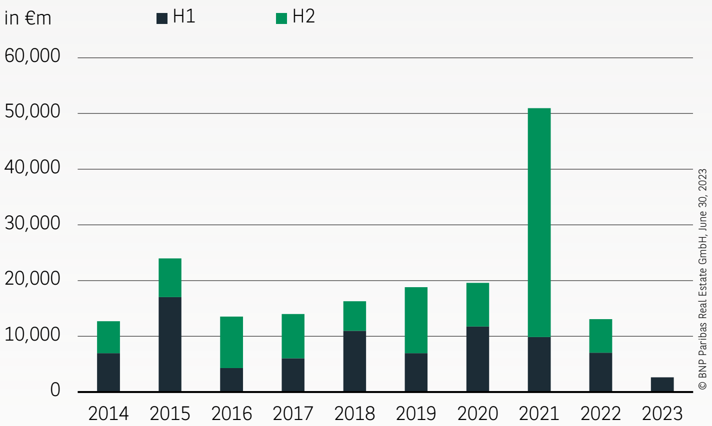
RESEARCH

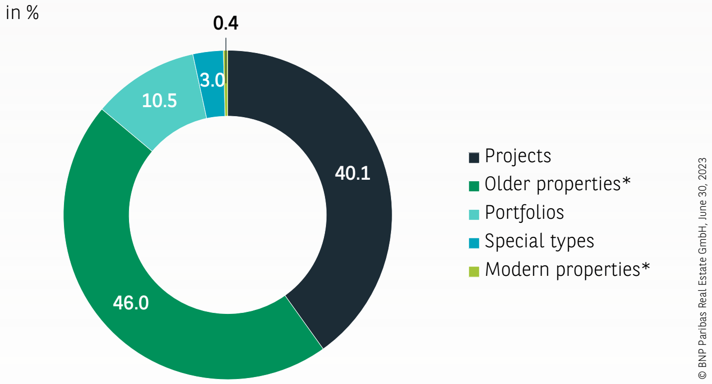
At a Glance Q2 2023

RESIDENTIAL INVESTMENT MARKET GERMANY

Investment volume residential portfolios

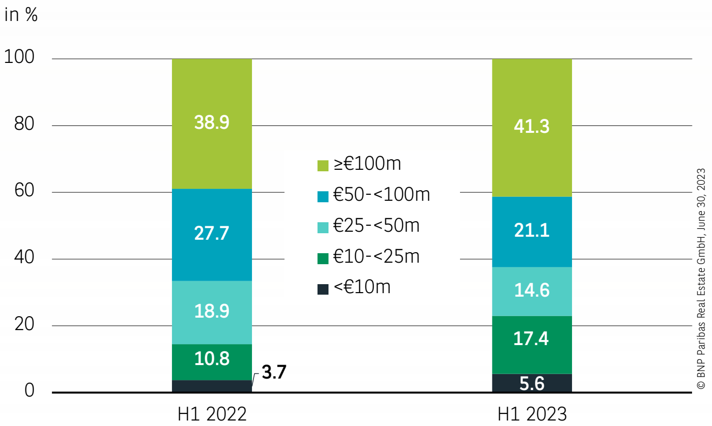


Investments by asset class H1 2023



* Block sales in one location

Investments by size category



WEAK FIRST HALF

At the end of the first half of 2023, the volume of capital investments was only around €2.63 billion. This was significantly below the prior-year figure of 63% and also 69% below the long-term average. Overall, the weakest first half-year since 2011 was recorded. Investment activity on the German residential investment markets again was unable to pick up significantly in the second quarter. In addition to a number of macroeconomic uncertainties, more difficult or more expensive debt financing - encouraged by the tight cycle of interest rate hikes - continued to keep transaction activity very subdued. The price discovery phase has not yet been completed, with the result that price differences still exist for the greater part between purchase and sale requests. There is consequently still a lack of large-volume deals ready for the market.

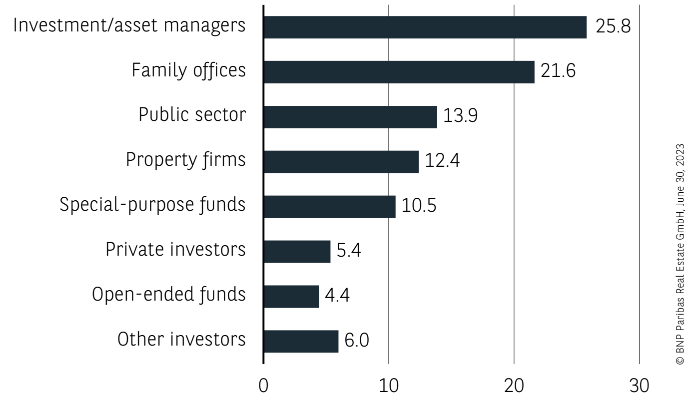
OLDER PROPERTIES AND PROJECTS MOST IN DEMAND

The lack of institutional investors in the market and the low investment volume had an impact on the investments of the individual asset classes. Large-volume existing portfolios usually dominate investment activity (10-year average: 52%), but accounted for just under 11% in the first half of the year. Older properties were in relatively high demand with a share of 46% (10 -year average: 17%). Projects and forward deals also accounted for a well above-average share of just over 40% (10-year average: 24%). As previously, investors appear to be selling their older portfolio properties first in order to get rid of major risks in their portfolios.

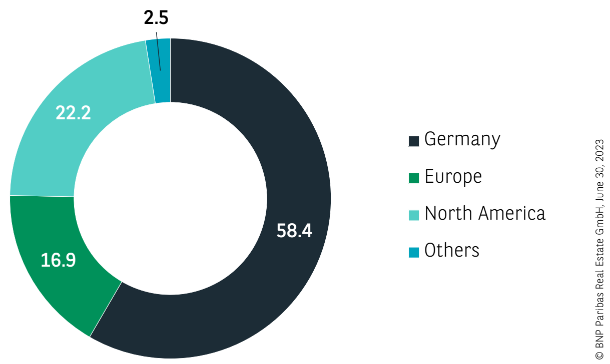
MARKET REMAINS SMALL-SIZED

Very low investment activity in the large-volume segment is one reason for the low overall volume. Although the segment above €100 million has a relatively high share of 41%, in absolute terms four registered large transactions with a cumulative volume of €1.08 billion are very few in a long-term comparison (10-year average: €5.03 billion). In contrast, the segment of mid-sized deals (€50-100 million) is much livelier with a share of 21% (10-year average: 17%). The average investment volume per deal was only around €35 million. Thus, the market is significantly smaller than in previous years.

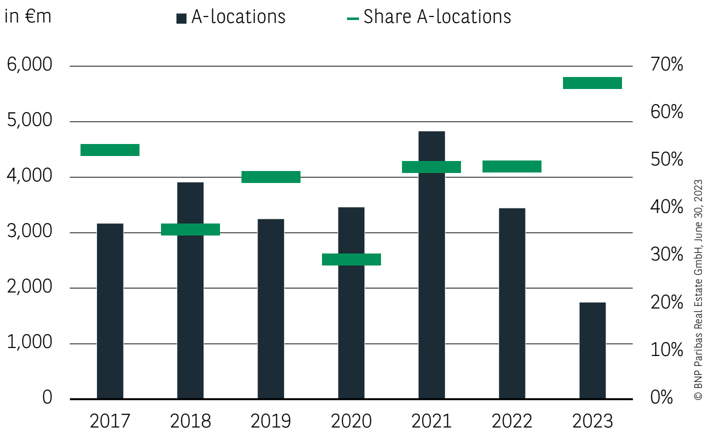
Investments by buyer group H1 2023



Investments by origin of capital H1 2023



Investment volume A-locations and share of total volume H1



U.S. CAPITAL RETURNS

The return of US capital can be seen as a positive sign for new opportunities on the German residential investment markets. While American buyers largely remained absent from the market in the first quarter, two large-volume transactions were recorded in the second quarter. US capital accounts for an above-average share of around 22% (10-year average: 6%). The two strongest buyer groups, investment managers and family offices, contributed well above-average shares to the investment volume with 26% (10-year average: 9%) and 22% (10-year average: 4%) respectively. The high level of equity capitalization is likely to explain the lively buying interest of these buyer groups.

FURTHER RISE IN NET PRIME YIELDS

Alongside the interest rate increases by the ECB, net prime yields for new-build properties also rose noticeably in the second quarter. The increase compared with the first quarter ranged between 35 and 50 basis points. Munich remains the most expensive location (3.35%). It is followed by Berlin, Frankfurt, Hamburg and Stuttgart at 3.40%. The current rate for Düsseldorf and Cologne is 3.50%.

SHARE OF A-LOCATIONS SLIGHTLY ABOVE AVERAGE

In the first six months, investors sought out the solid investment environment of A-locations in particular. These accounted for a share of just under 67% (10-year average: 42%).

OUTLOOK

The first half of the year is evidence of the ongoing price-fixing phase on the German residential investment market. Nevertheless, initial market-ready deals, such as the Vonovia deal in Munich, show that buyers and sellers are converging again. Despite the ECB's determination to pursue the 2% inflation target, it can be assumed that much of the interest rate hike cycle has already been completed. Due to the expected decline in inflation, only smaller interest rate steps or a pause in rate hikes can be expected in the second half of the year. At the same time, investors are likely to slowly accept the stabilizing interest rate level as the new reality in the coming months and switch back to investment mode. This is because the demand-side fundamentals, the very low volumes of new construction as well as significant rental price increases and rising rental yields should argue in favor of a relatively strong German residential investment market in the long term. Due to the weak first half of the year and fewer large-volume transactions, investment volumes are still expected to be below average in 2023. However, by 2024 at the latest, there should be a reshuffle of the cards, with healthy price adjustments having been made up for and fresh capital flowing into residential real estate again.

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Further information BNP Paribas Real Estate GmbH | Christoph Meszelinsky, Head of Residential Investment | Phone +49 (0)211-52 00-00 | christoph.meszelinsky@bnpparibas.com
www.realestate.bnpparibas.de