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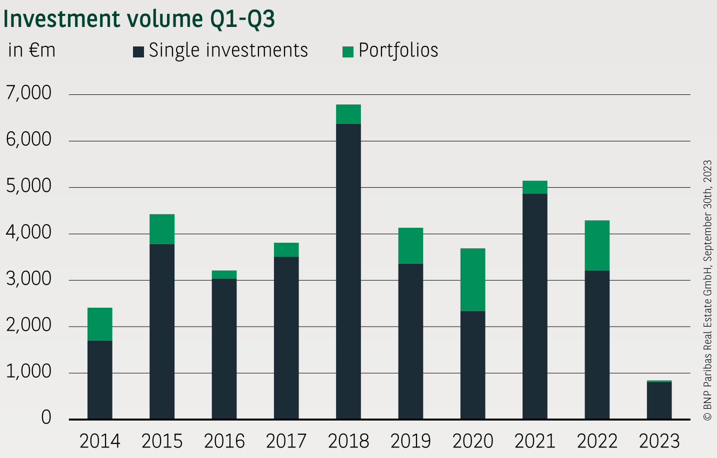
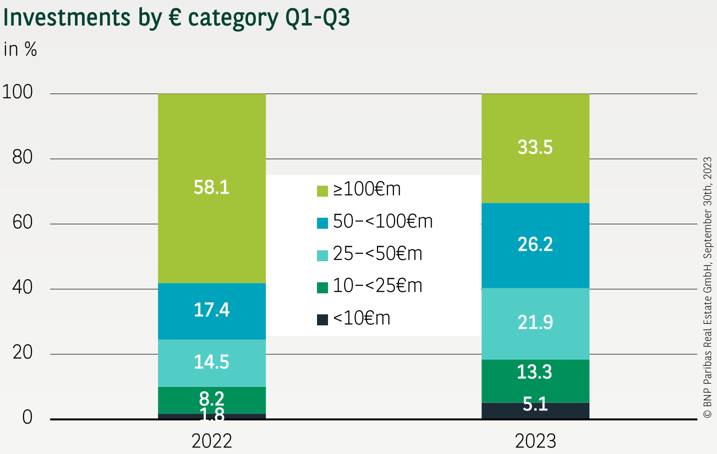
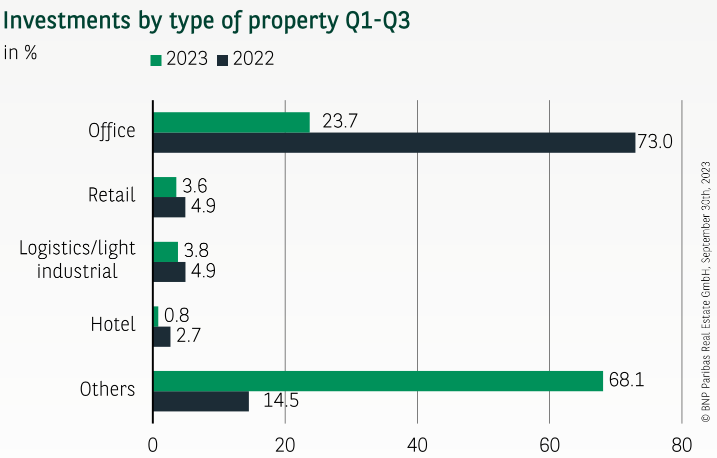
RESEARCH

At a Glance Q3 2023

INVESTMENT MARKET FRANKFURT







FRANKFURT INVESTMENT MARKET REMAINS ON STAND-BY

With a transaction volume of just €844 million in the current year, the Frankfurt investment market continues to be on stand-by, even though the third quarter recorded a slight upturn compared with previous quarters as investment volume reached €400 million. The main reason for the low volume, which is 80% below the previous year's level, is the lack of large office transactions due to the fact that the pricing phase has not yet been completed. The adjustment in this market segment between the periods of zero interest rate policy and the current financing environment is particularly significant, which means as long as there is no certainty regarding the price level, sellers are hardly bringing large-volume core properties to the market. For the Frankfurt investment market, the traditionally most important market segment is therefore almost completely absent in the current year. The fact that market participants regard this as a temporary situation is reflected not least in the brisk volume of transaction activity for development properties. Many developers are positioning themselves to participate in the expected upturn in the markets over the next few years.

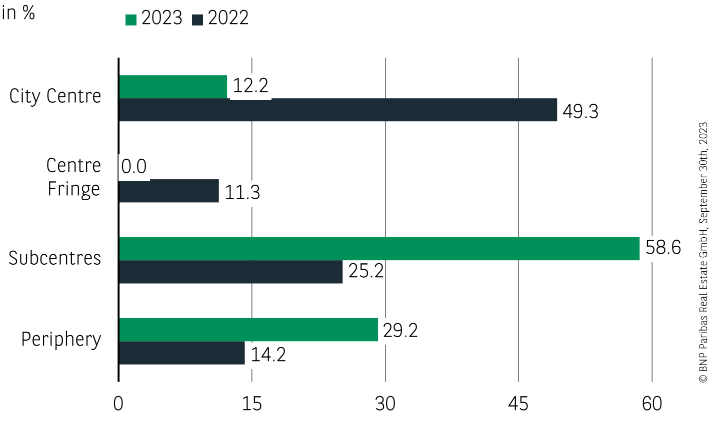
NO DOMINANCE OF LARGE INVESTMENTS

While the share of large transactions in the triple-digit million range averaged just under 50% over the last ten years, it is currently only one-third. Absolute values indicate a more pronounced decline in importance. After averaging around €2 billion over the last ten years, this market segment currently only accounts for a good €280 million. Sales with a volume of €50 million to €100 million have so far contributed a good 26% to the overall result and the size category of €25 million to €50 million is responsible for a further almost 22%. Although smaller deals of up to €25 million were able to increase their relative share slightly, they also suffered a decline in turnover in absolute terms.

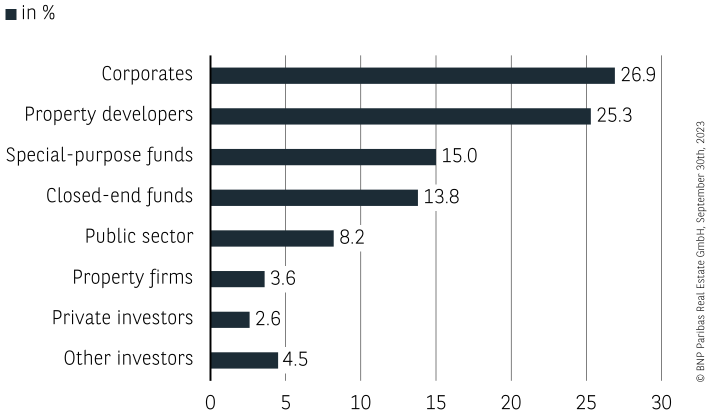
DEVELOPMENT PROPERTIES WITH HIGHEST SHARE

The fact that office properties, which are traditionally the most important asset class on the Frankfurt investment market, are especially hard hit by the current conditions is underlined by their low share of transaction. At just under 24%, they fall considerably short of the usual average of around 70%. By contrast, trading in development properties, which are part of the other category, was lively. At almost €350 million, they accounted for around 41% of the investment volume. This is also a very respectable result in absolute terms and underlines the long-term confidence in the market. In addition, retail and logistics properties each account for just under 4% of investment volume.

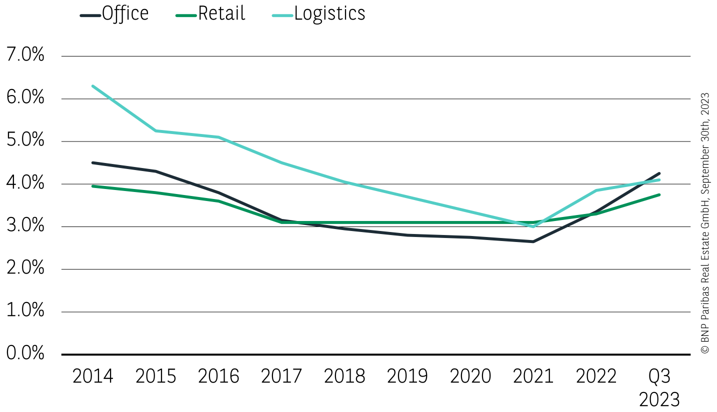
Investments by location Q1-Q3



Investments by buyer group Q1-Q3 2023



Net prime yields by type of property



PERIPHERY WITH HIGH SHARES OF VOLUME

The current situation is also impressively reflected in the distribution of transaction volumes across the market area. Whereas investment activity usually focuses on city center and centre fringe, this year it is clearly the peripheral locations that have been in the spotlight. Subcentre locations have taken the lead with a share of almost 59%. The periphery follows in second place with a further 29%. Combined, these two categories account for 88% of the total volume. By contrast, they only account for just under 40% on average. The remaining 12% is accounted for the city center, where the long-term average is around 50%. No significant transactions have yet been recorded in the centre fringe.

CORPORATES AND PROJECT DEVELOPERS MOST ACTIVE

In total, four buyer groups account for double-digit shares of investments. Slightly surprisingly, corporates secured the top position with a share of just under 27%. This impressively demonstrates the structural impact of the current difficult conditions on the markets. By contrast, the second place of project developers, who contribute a good quarter, is not surprising, as they traditionally reposition themselves in weaker markets by acquiring land. Special funds with 15%, closed-end funds with just under 14% and the public sector with a good 8% follow in the other places.

YIELDS HAVE RISEN FURTHER

Following the interest rate steps taken by the major central banks, net prime yields continued to rise slightly in the third quarter, as expected. In the office segment, they currently stand at 4.25%, 25 basis points higher than in the second quarter. Prime yields for logistics properties also increased slightly by ten basis points and now stand at 4.10%. By contrast, they are unchanged for retail high street properties. In this segment, which is more strongly dominated by private investors, yields remain at 3.75%.

OUTLOOK

The general conditions for the Frankfurt investment market will not change significantly in the final quarter of the year. At present, there are many indications that both the Fed and the ECB will raise key interest rates at least once more this year, meaning that the pricing phase is not likely to be completed until the beginning of next year. This is the prerequisite for a significant revival in transactions, especially for large-volume office properties. Against this backdrop, investment volumes will not pick up noticeably until next year, with momentum expected to accelerate visibly in the second half of the year.

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