GERMANY

REPORT

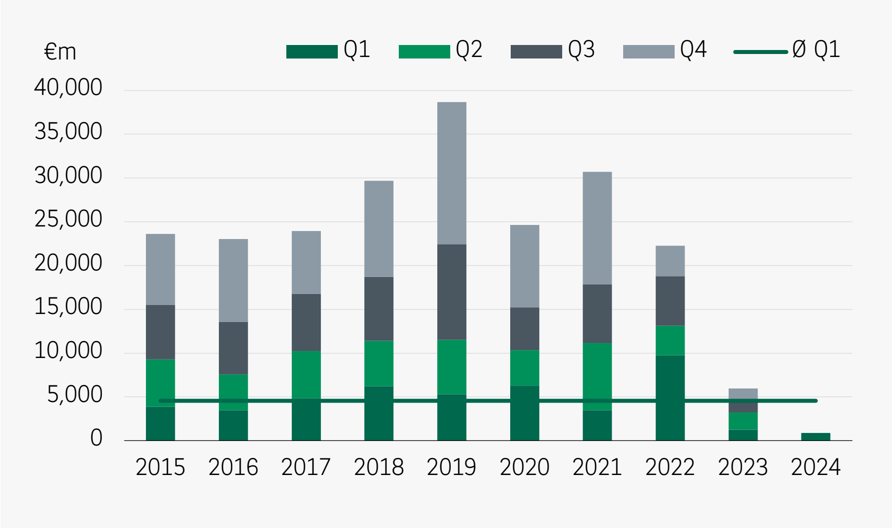
OFFICE INVESTMENT MARKET

Q1 2024

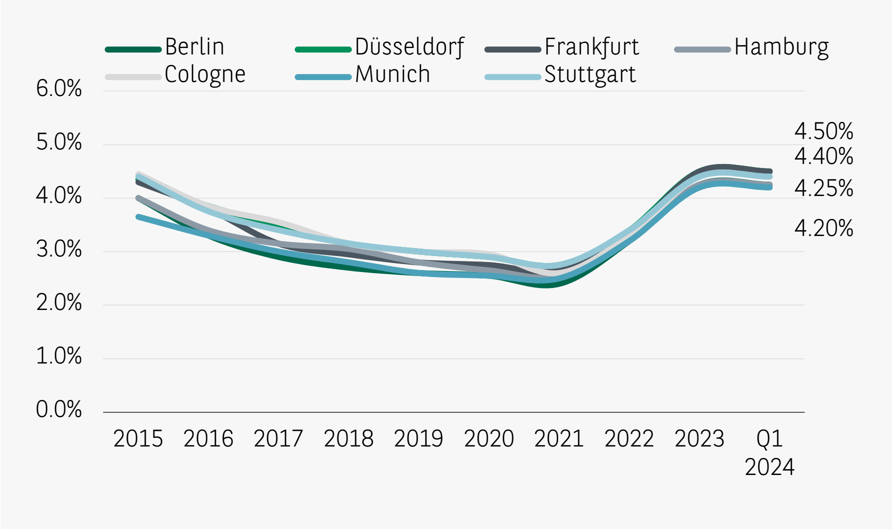
BNP PARIBAS REAL ESTATE

REAL ESTATE for a changing world

Development of office investment volume



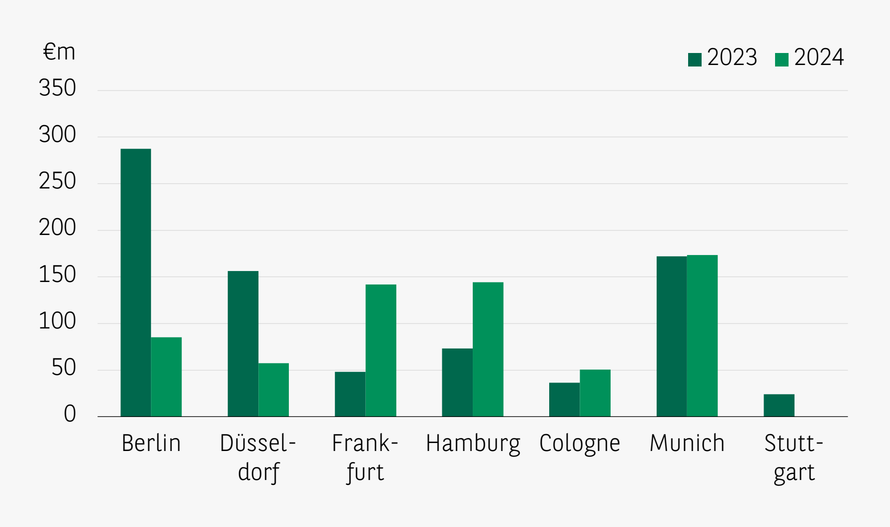
Office net prime yields in A-locations



LITTLE MOMENTUM IN OFFICE INVESTMENTS: TURNOVER IN Q1 WELL BELOW AVERAGE

- Office investments in Germany totalled just €871 million in the first quarter of 2024. This was around 31% below the result from the same period of the previous year. In a long-term comparison, this is one of the weakest Q1 results. The 10-year average is €4.5 billion.
- In contrast to the retail and logistics segments, there was no year-on-year increase in investment turnover in the office segment, resulting in a market share of just 16%. The office asset class ranks a distant third behind retail and logistics, which recorded investment turnover of €2 billion and a good €1.4 billion respectively in the first quarter.
- Individual transactions currently dominate the market. Portfolio sales have made a negligible contribution to the result in the office segment.
- At the beginning of 2024, there is still considerable uncertainty regarding the further development of the office markets. This is due, on the one hand, to the protracted process of the pricing phase and, on the other, to the weak performance of the occupier markets, which is largely attributable to the persistently difficult economic situation.
- Following a period of continuous growth since mid-2022, driven by elevated interest rates, yields have stabilised in the first quarter of 2024, in line with expectations. For offices, they average 4.36% in the A-locations. Munich remains the most expensive location with a prime yield of 4.20%, followed by Berlin and Hamburg with 4.25% each.

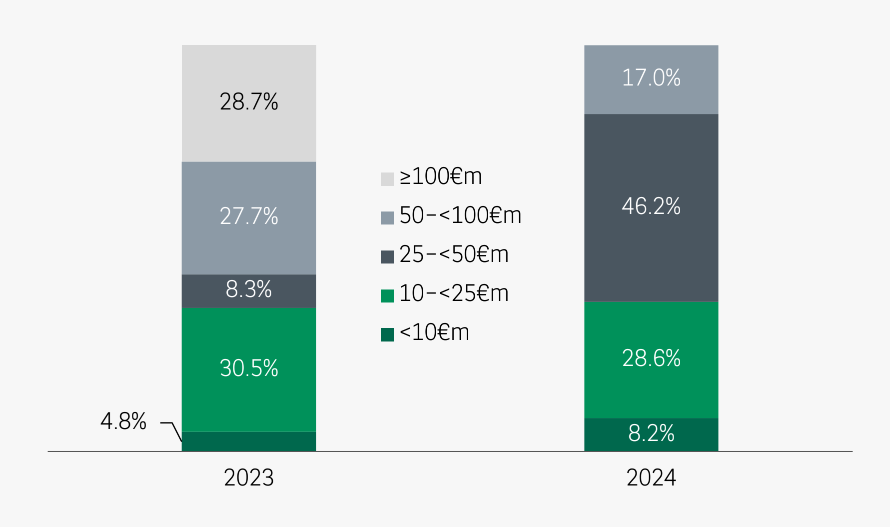
Office investments in A-locations Q1



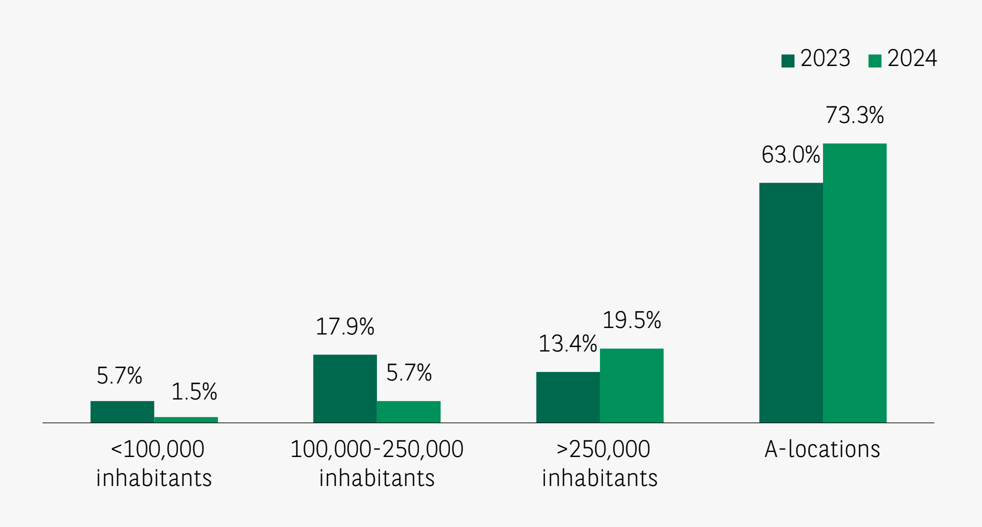
CONTINUED LACK OF MAJOR TRANSACTIONS

- Large-volume office transactions in particular are affected by the fact that the pricing phase has not yet been fully completed and the uncertainties regarding the further development of the office markets still exist. No transactions in the three-digit million range were registered in the first quarter.
- With a slight year-on-year increase and an investment volume of just under €175 million, Munich is the leader in office investments. The office investment markets of Hamburg and Frankfurt are significantly stronger than in Q1 2023 - but still at a significantly below-average level - with just under €145 million each. Berlin has seen a disappointing start to the year, with only around €85 million invested.
- A-locations remain the primary focus of investment in the office segment. Their market share has increased to 75% compared to the previous year.

Office investments by € category Q1



Office investments by city size Q1*



*excl. portfolios

OUTLOOK

- There are currently numerous indications that the office investment market will only gradually gain momentum. On the one hand, there is little expectation of a tailwind from the occupier markets in the near term. The latest economic forecasts assume minimal growth in 2024, which means that office space take-up, which generally correlates strongly with GDP, is likely to remain subdued for the time being before picking up speed again in the course of more extensive growth. On the other hand, there are still question marks over the further development of interest rates.
- As winter draws to a close, however, there are increasing positive signs that should benefit the office investment market. These include the continuous decline in inflation, which will give central banks room for manoeuvre for the first interest rate cuts, possibly as early as mid 2024, and make financing cheaper again. Key leading indicators such as those from ifo and GfK continue to trend upwards. The mood among entrepreneurs and consumers appears to be brightening.
- There are currently many indications that the pricing process will be finalised in the coming months and that yield levels will continue to firm up.
- It can also be assumed that the supply of properties for sale will increase as more and more sellers accept the new price levels and, not least, owners are forced to sell due to financing constraints.
- Nevertheless, investment turnover in the office asset class is unlikely to increase significantly for the time being, as higher economic growth, more robust occupier markets and greater planning certainty among market players, including with regard to future financing conditions, are likely to be the basic prerequisites for this.

Key facts office investment market Germany

INVESTMENT VOLUME	Q1 2023	Q1 2024	CHANGE
Total (€m)	**1,265**	**871**	**-31.2%**
Portfolio share	0.0%	1.7%	+1.7%pts
Share above €100 million	28.7%	0.0%	-28.7%pts
Share of A-cities	63.0%	75.0%	+12.0%pts
Share of foreign investors	26.2%	13.1%	-13.1%pts

NET PRIME YIELDS	Q1 2023	Q1 2024	CHANGE
Berlin	3.40%	4.25%	+85bps
Düsseldorf	3.85%	4.50%	+65bps
Frankfurt	3.85%	4.50%	+65bps
Hamburg	3.55%	4.25%	+70bps
Cologne	3.55%	4.40%	+85bps
Munich	3.35%	4.20%	+85bps
Stuttgart	3.60%	4.40%	+80bps

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