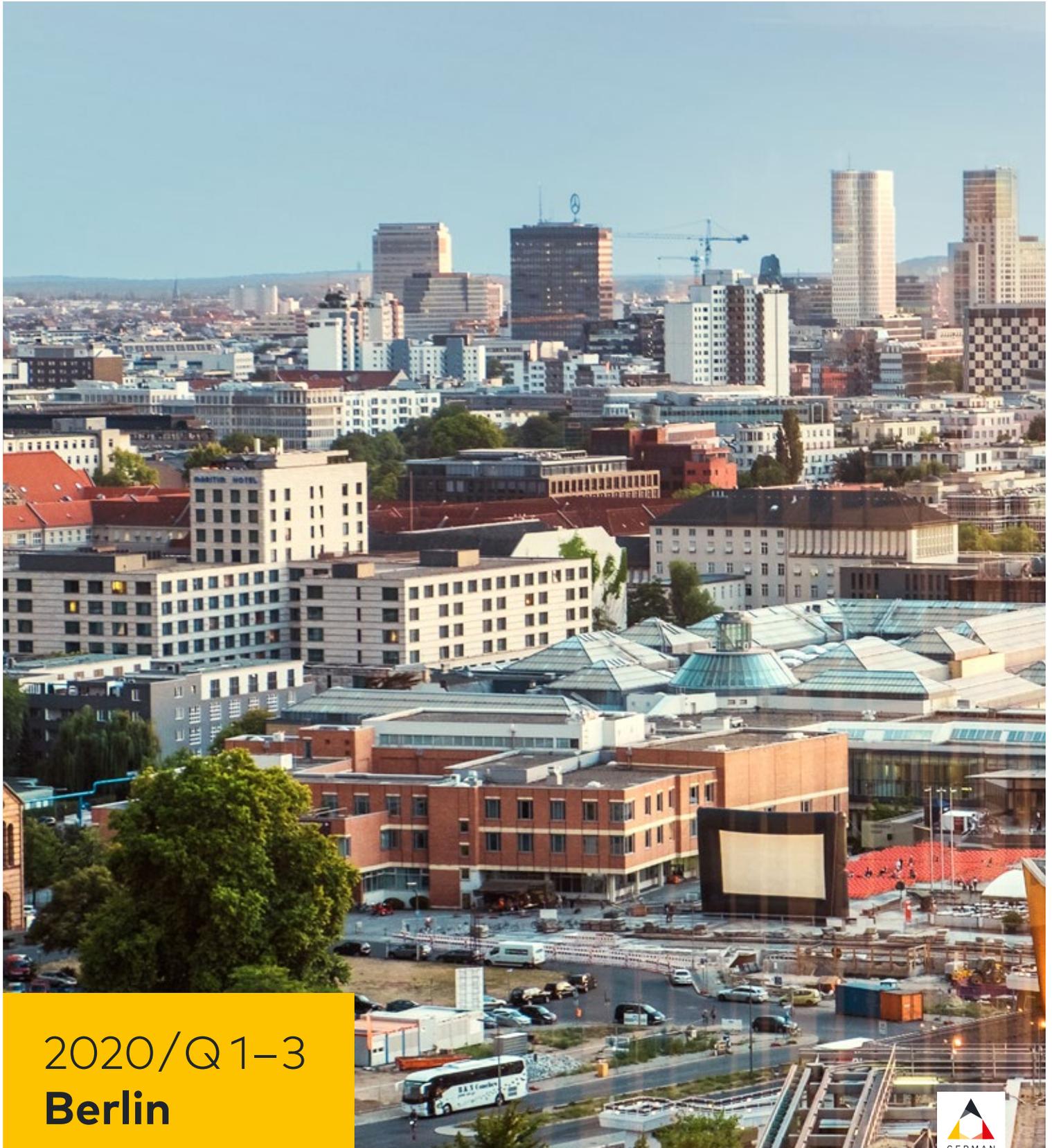


Market Survey

Commercial | Investment

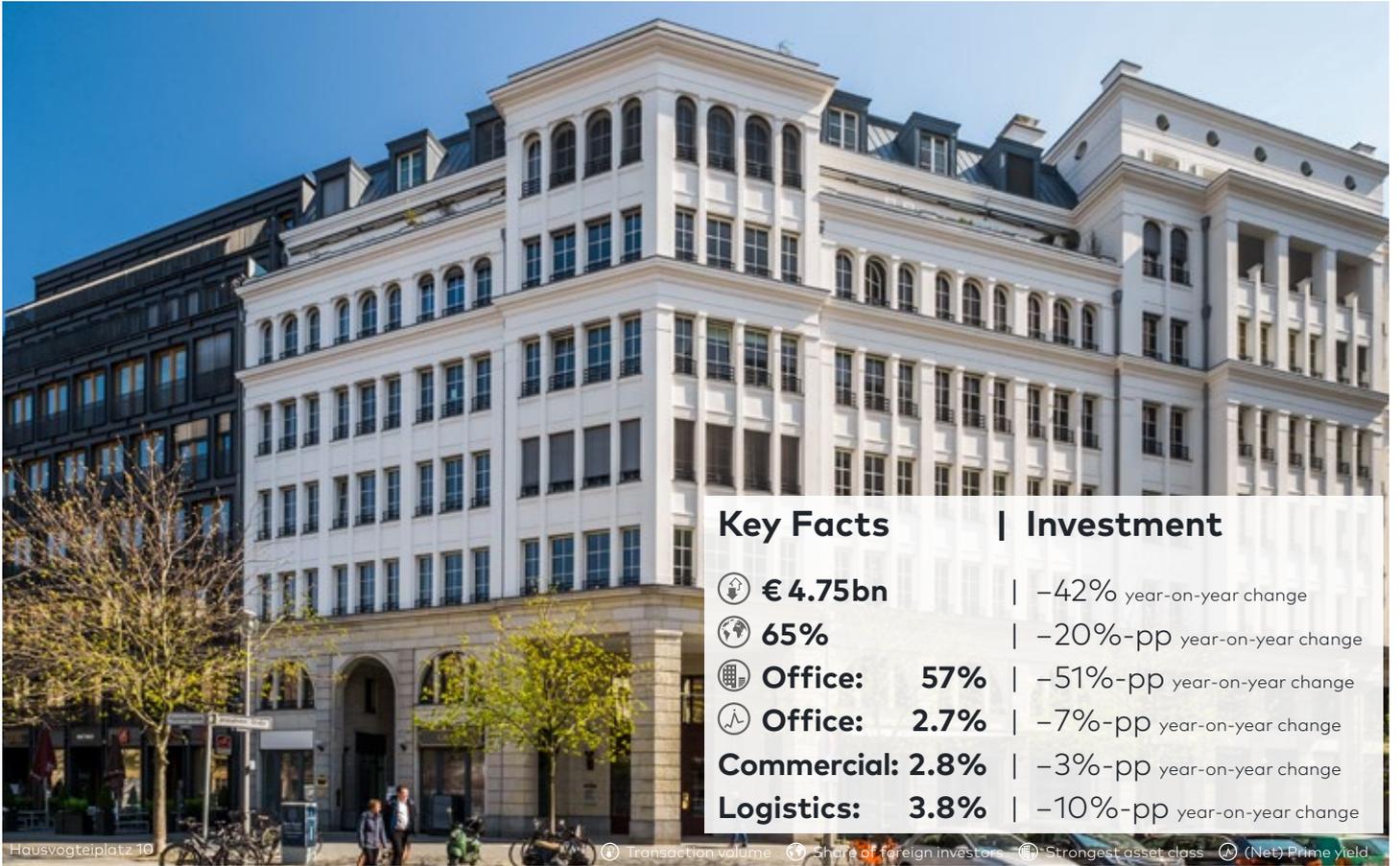


2020/Q1-3
Berlin

Hamburg | Sylt | Berlin



Grossmann & Berger



“Investors are more hesitant and are especially wary of assets that have been badly affected by the pandemic such as hotels and certain properties in the retail sector. A large number of risk-averse investors are seeking offices that have been let long-term to highly credit-worthy tenants and these properties are selling at high prices.”

Holger Michaelis | Managing Director

Transaction volume

Market heavily influenced by Aroundtown’s purchase of shares in TLG

In the nine months of 2020 the Berlin investment market dropped by 42% against the record posted the year before. Despite that, the result of €4.75bn represented the third-highest volume of property trading ever seen in the national capital during the space of nine months. This record figure is partly attributable to Aroundtown’s purchase of some 80% of the shares in TLG, for a price of some €1.6bn. If this one outlier transaction were discounted, the total trading volume would be €3.15bn, slightly less than the result in 2016. In the 3rd quarter alone trading totalled €1,290m. Grossmann & Berger’s view is, however, that by the end of 2020 real estate trades will total around seven billion euros because many investors are urgently in search of assets for their cash, and the sale of several properties for nine-figure sums are currently being negotiated.

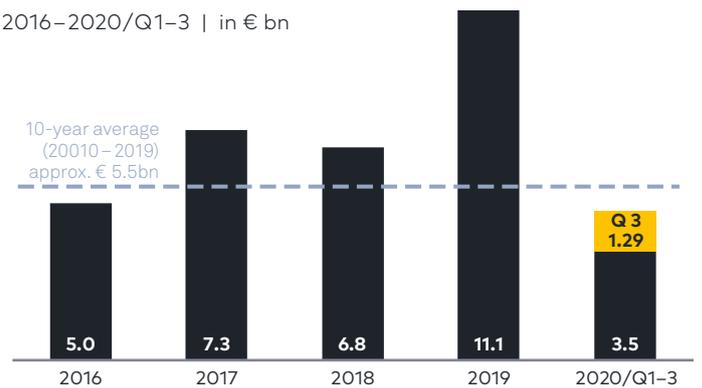
In conjunction with the 42% decline in the trading volume, the number of property sales in Berlin fell by -23%. Only 81 properties changed hands in the first nine months of 2020 compared with 105 in the same period of 2019. 22% (€1.0bn) of the volume traded was comprised of sales at prices between

€26m and €50m, around 28% (€1,3bn) was made up of properties that sold for between €51m and €100m. Only 44% of the market (€2.1bn) involved real estate with price tags in excess of €100m, thus slipping by -60% year on year.

Among the biggest single-property transactions that Grossmann & Berger has thus far seen in the German capital was that of the Vattenfall headquarters located close to Nordbahnhof station (Chausseestrasse 23, Mitte sub-market) which Credit Suisse acquired from Barings Real Estate Advisers. The second-biggest transaction involved the “Quartier Schützenstrasse” (Zimmerstrasse 67–69, Mitte 1a sub-market), sold to Henderson Park by the Singapore State Fund for €194m. A third trade was also comfortably in the nine-figure bracket. The project development department of HIH sold Zalando headquarters (Edith-Kiss-Strasse 1, Friedrichshain sub-market) to HIH Real Estate GmbH Group.

Transaction volume

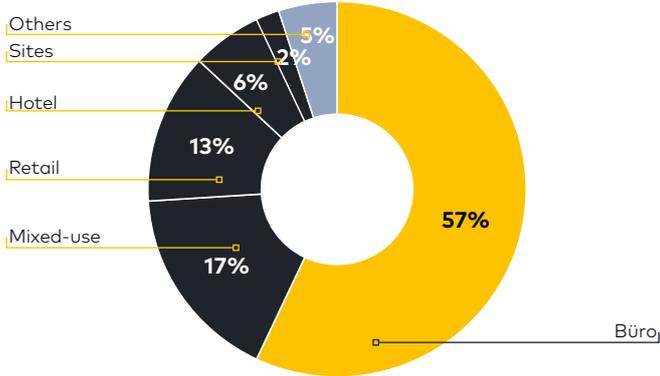
2016–2020/Q1-3 | in € bn



source: Grossmann & Berger GmbH

Transaction volume

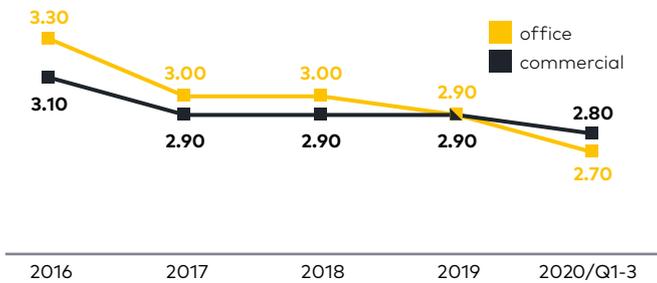
2020/Q1-3 | by Asset class



source: Grossmann & Berger GmbH

Prime yields

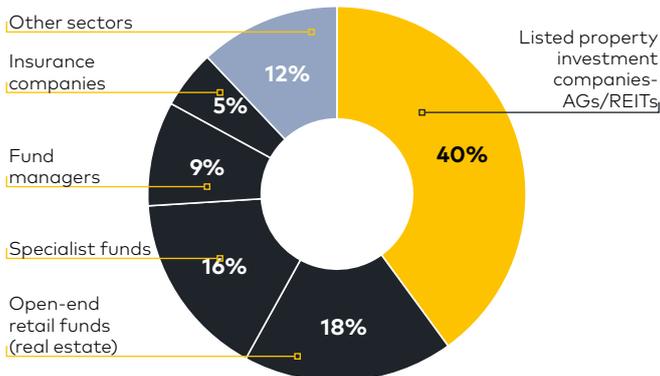
2016-2020/Q1-3 | (net) initial yield* | in %



source: Grossmann & Berger GmbH

Transaction volume

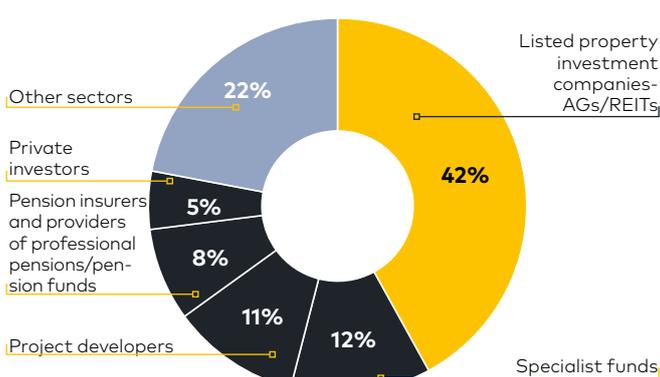
2020/Q1-3 | by Investor groups



source: Grossmann & Berger GmbH

Transaction volume

2020/Q1-3 | by Vendor groups



source: Grossmann & Berger GmbH

Investment properties

Investments observed outside central areas too

Two sub-markets—Mitte (26.8%) and Periphery South (11.6%)—took double-digit shares of the transaction volume. In the case of “Mitte”, the sale of the TLG shares made a crucial contribution, while in “Periphery South” a large number of various types of property were traded, including the “Quartier am Südkreuz” (Gotenstrasse 52–54, part of the Medicus portfolio) which Hines Pan-European Core Fund sold to Union Investment. Above all, current demand favours properties in the CBD and locations near the city centre if they are let longer-term to creditworthy tenants.

As far as the various assets are concerned, three classes posted two-figure shares of the total sold. As in the past, the undisputed front-runner was office real estate, accounting for 57% (€2.7bn), largely due to the high-volume trades already noted (Chausseestrasse 23, “Enter”, “Quartier Schützenstrasse”) and the sale of the TLG shareholding. The sales of the “Hallen am Borsigturm” (ECE European Prime Shopping Centre Fund to ECE Preferred Equity Fund) and of the “Kulturbrauerei” (TLG to Aroundtown) propelled the category of mixed use assets to second place with a share of 17% of the market (€827m). Shop properties followed with 13% of the market (€608m). This result owes much to the sale of two shopping centres, “Linden Centre” and “Fachmarktzentrum Adlergestell” (TLG to Aroundtown). Other asset classes accounted for between one and 6%.

Yields

Yields appear to have bottomed out

Compared with the same period a year ago, prime yields on commercial properties in Berlin bought and sold during the first nine months of 2020 again contracted slightly, having remained comparatively stable over the course of 2019. The prime net yield on office properties now stands at 2.70%. On logistics properties, yields softened by 40 base points to 3.80%, on commercial buildings they dropped 10 base points to 2.80%.

Investors and vendors

International actors still active

Unlike the situation a year ago, the large majority of buyers and sellers of Berlin properties in the first nine months of 2020 were foreign players. International buyers were behind 65% of the volume purchased, spending €3.1bn, and behind 66% of the volume sold, a total turnover of €3.1bn. Here too, the difference between this and the prior year stems from the numerous big-ticket trades and the sale of the TLG shareholding to Aroundtown.

Due to Aroundtown’s takeover of shares in TLG, listed real estate investment companies (AGs) dominated the market as buyers (40%, €1.9bn) and as sellers (42%, €2.0bn). Almost a fifth of properties traded in Berlin were bought by open-ended mutual property investment funds (€869m); specialist funds bought some 16% of the total market (€755m). Specialist funds were the biggest group of sellers, accounting for 12% of the total traded (€556m), followed by developers with a share of 11% (€546m).

Outlook

Core properties are focus of attention

Investors will continue to be very interested in rock-solid assets such as properties let long-term to government bodies (as good as bonds) if these are in good or very good locations, because they have cash that must be put to work and interest rates remain low. Based on the result to date, we expect the year to close with a figure of some €7bn of investment transactions and stable yields.

Skilled consultancy Services and Contact



What can we do for you?

An analysis of the property markets is an important part of the wide-ranging consultancy services offered by Grossmann & Berger. We would be pleased to be of assistance in your decision-making process and can draft an offer that is tailored to your specific requirements.

Ulrich Denk

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Glossary

Definitions, investment market

Transaction volume: The transaction volume is the sum of the purchase prices of all commercial property sold in Hamburg during the period under review. The date of signing determines when a transaction is included in the statistics. Buy to let investments in residential properties are not included in the transaction volume.

Asset class: A property is allocated to an asset class according to the predominant way in which space is used (at least 75%) when the contract is signed.

Individual properties and portfolio transactions: An individual property transaction means the purchase of a building used for commercial purposes or of a piece of land for development. Portfolio transactions involve the purchase of at least two separate properties in different locations.

Prime yield: The prime yield is the initial return attainable on a property that has been let on normal market terms (tenants with good credit ratings), has top quality structure and fit-out and stands in one of the very best locations. It is stated as the net initial yield in per cent, i.e. the ratio between the annual rental income less non-apportionable ancillary costs and the gross purchase price (net purchase price plus land acquisition tax, notary's fees and agency commission.)

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diagrams: Grossmann & Berger Research

We draw your attention to the fact that all statements made here are non-binding. Most of the information is based on third-party reports. The sole intention of this market survey is to provide general information for our clients.

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