

# MARKETBEAT GERMANY

Investment Q1 2023



	YoY Change	12-Month Forecast
<b>€5.08 bn</b> Transaction Volume (cum.)	▼	▲
<b>34%</b> Share of Foreign Capital	▼	▲
<b>3.83%</b> Office Prime Yield Top-7*	▲	▲

\*Average net initial yield in German Top-7 markets

## ECONOMIC INDICATORS

	YoY Change	12-Month Forecast
<b>0.14%</b> GDP Growth (Q1 2023 vs. Q1 2022)	▼	▲
<b>5.7%</b> Unemployment Rate (Mar 2023)	▲	■
<b>93.3</b> Ifo Business Climate Index (Mar 2023)	▲	▲
<b>3.50%</b> ECB Interest rate (Mar 2023)	▲	▲
<b>2.34%</b> 10-Year Government Bond Yield (Q1 2023)	▲	▲

Sources: Moody's Analytics, National Labour Office, Ifo Institute

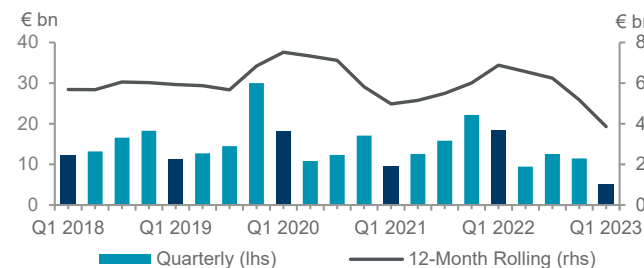
## EUROPEAN CENTRAL BANK CONTINUES RESTRICTIVE MONETARY POLICY

Despite many risks and major uncertainties, the latest data on the German economy is again sending positive signals. According to the ifo-economic survey, the business climate index rose further to 93.3 points in March 2023. This represents the fifth consecutive increase. Compared with the same point last year (90.5 points), the increase is 2.8 points. The main drivers for this were a significant increase in order volumes in industry and high export sales. Nevertheless, the economic outlook for this year is subject to many uncertainties. Against the background of a possible cooling of the global economy, especially in the USA and China, and the geopolitical tensions resulting from the war in Ukraine, the economy in Germany is forecast to stagnate in 2023. Although inflation slowed somewhat in the first three months of the year, it remained at a high 7.4% in March. A rapid decline in the inflation rate is not expected this year. On the capital markets, the restrictive monetary policy of the European Central Bank (ECB) is increasingly having a braking effect. With yields on 10-year German government bonds rising sharply to an average of 2.34% in the 1st quarter of 2023, mortgage rates have also risen from around 2.0% in March 2022 to the current level of 3.80%. With a key interest rate hike announced for May, the interest rate environment and thus the volatility on the bond and credit markets will remain high. To the detriment of the real estate investment market, the current monetary environment increases the attractiveness of alternative investment products such as government bonds or traditional fixed-term deposit accounts, so that investors could still shift capital from the real estate sector in the medium term.

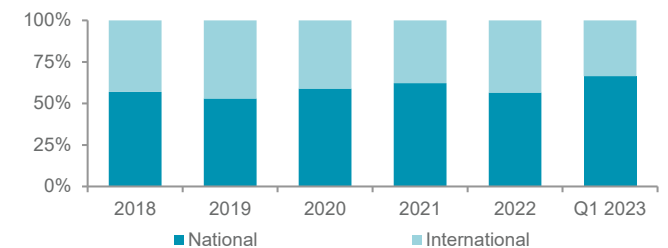
## PRICE CORRECTION PHASE CONTINUES, REAL ESTATE TRANSACTIONS HEAVILY RESTRICTED

The commercial investment market in Germany achieved a transaction volume of only some €5.1 billion in Q1 2023. This is 72% below the equivalent period last year, marking the weakest start to a year since 2010. The Q1 5-year average of €13.8 was also missed by 63%. So far, only a few large portfolio and individual transactions above the €100 million mark have been registered. The reticence of market participants is still clearly apparent, as price adjustments are still proceeding very tentatively. However, sellers and buyers agree that yields must continue to rise and prices must soften further for transaction activity to increase.

## COMMERCIAL TRANSACTION VOLUME\*



## SHARE OF TRANSACTION VOLUME BY SOURCE OF CAPITAL



\*Office, Retail, Logistics / Industrial, Hotel. Other (Leisure, Health Care, Mixed Use, Development Plots)

# MARKETBEAT GERMANY

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## TRANSACTION VOLUME DOMINATED BY RETAIL PROPERTIES

In recent years, office properties have been the dominant asset class on the German investment market. For the first time since Q2 2015, the transaction volume for retail properties of around €1.6 billion again exceeded the transaction volume for office properties, contributing just under 31% of total CRE transaction volume. The positive result is partly due to the increase in Deutsche Euroshop's stake in five German shopping centres. Market participants' restraint had the greatest impact on the office segment. Compared with the equivalent period last year, transaction volume decreased by around 90% to just €1.05 billion. No core-transactions in excess of €100 million took place. Logistics and industrial real estate transactions totalled around €795 million, almost 79% less than Q1 2022.

## BERLIN RECORDS HIGHEST TRANSACTION VOLUME OF THE TOP-7 MARKETS

A total of around €2.6 billion was invested in the Top-7 markets in Q1 2023 (52% share). Compared to the equivalent period last year, this corresponds to a 73% decrease. Berlin is clearly in the lead with around €1.2 billion and 23% of the total transaction volume in Germany. Munich (€505 million) and Stuttgart (€275 million) follow at a considerable distance. The weakest market in terms of transaction volume is Cologne, at only €70 million. In a year-on-year comparison, all Top-7 markets recorded declines in transaction volume, some of which were substantial. The range extends from -39% in Berlin to -93% in Frankfurt am Main.

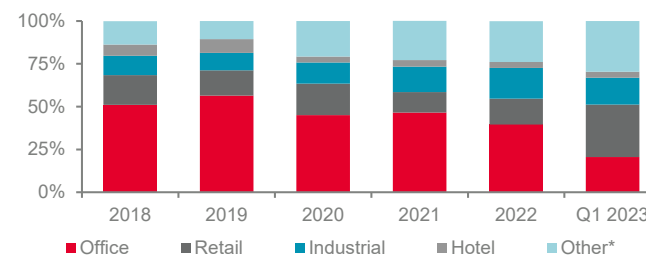
## PRIME YIELDS CONTINUE UPWARD TREND

At the start of the year, the rise in prime yields for all types of use continued unabated. Over the first quarter, the average prime yield in the Top-7 markets for office properties rose by 32 basis points to 3.83%. For high-street retail properties, the prime yield rose by 30 basis points to the current 3.90% and for logistics properties by 15 basis points to 4.15%. The price correction phase for low-risk core properties has not yet been completed. Weak investor demand and a low propensity to buy will thus lead to further increases in prime yields.

## Outlook

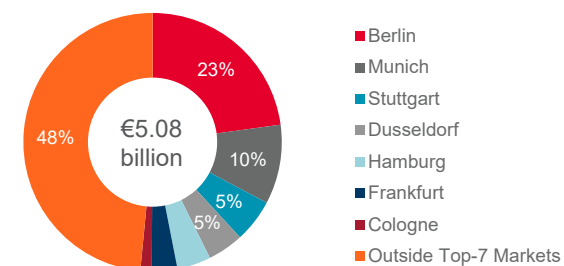
- The combination of high inflation and high borrowing rates and the ECB's announced interest rate hike remains difficult for market participants. The price correction phase on the investment market will continue for several months.
- Along with the still strong reticence of both buyers and sellers, the rise in yields will continue, especially for low-risk core assets.
- Demand is increasingly shifting towards value-add and core-plus properties in very good locations. Against the backdrop of further rising rents in almost all asset classes, it is possible to leverage sustainable value uplift potential, not least with regard to compliance with ESG-criteria.

## SHARE OF TRANSACTION VOLUME BY ASSET CLASS

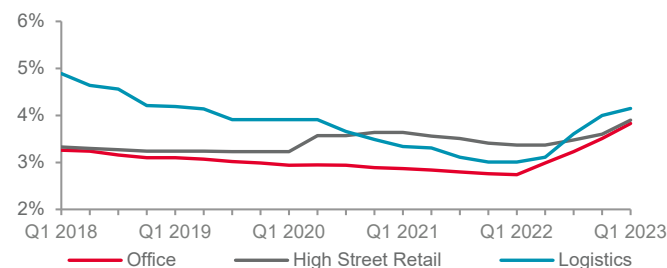


\*Other (Leisure, Health Care, Mixed Use, Development Plots)

## TRANSACTION VOLUME BY MARKET Q1 2023



## PRIME YIELD BY ASSET CLASS\*



\* Average net initial yield in German Top-7 markets, each by type of asset

# MARKETBEAT GERMANY

## Investment Q1 2023 – Office



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### OFFICE TRANSACTION ACTIVITY VERY SUBDUED

The transaction volume for office properties totalled around €1.05 billion in Q1 2023. Compared with the equivalent period last year, this represents a decrease of almost 90%. In the previous 15 years, the Q1 volume was only weaker in 2009 and 2011. So far, transaction activity has mainly been focused on value-add and core-plus office properties in the price segment of less than €50 million; primarily existing buildings in very good and central locations. In the case of core properties, the price adjustment necessitated by the turnaround in interest rates has not yet been completed, which is why the transaction volume for this risk class has come to an almost complete standstill.

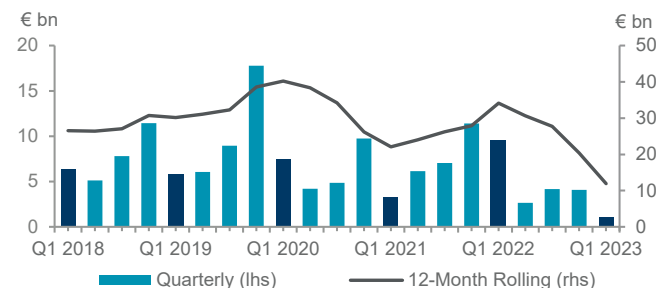
### PROPORTION OF TOP-7 TRANSACTION VOLUME DECREASED

The Top-7 markets contributed some €600 million and 57% of the total office transaction volume in Germany. Compared with the previous year the proportion decreased by 21 percentage points and is at the lowest level of the past five years. Munich (€185 million) and Berlin (€160 million) were the markets with the highest transaction volume and accounted for around one-third of the total German office transaction volume. The results of the other Top markets were all below €100 million. There were no office transactions recorded in Stuttgart.

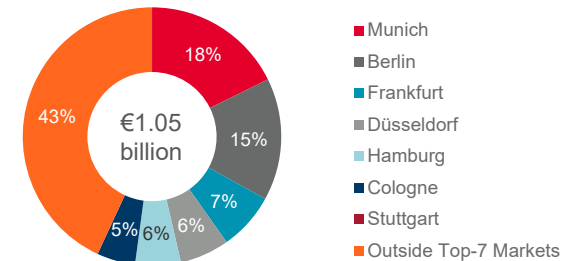
### PRIME OFFICE YIELDS HAVE RISEN FOR FOUR SUCCESSIVE QUARTERS

The average prime yield for office properties in the Top-7 markets is currently 3.83%, 32 basis points higher than at the end of December 2022. In a 12-month comparison, this corresponds to an increase of 109 basis points. At the end of Q1 2023, the yield spread to the 10-year German government bond yield was 149 basis points; narrowing from 264 a year ago. Munich remains the most expensive office investment market, with a prime office yield of 3.50%. Stuttgart's prime office yield has now exceeded the 4% mark and stands at 4.10%.

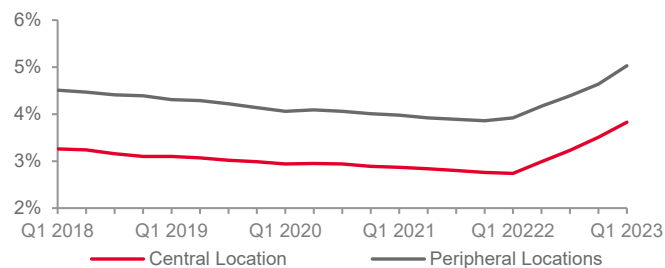
### OFFICE TRANSACTION VOLUME



### TRANSACTION VOLUME BY MARKET Q1 2023



### OFFICE PRIME YIELD BY LOCATION\*



\* Average net initial yield in German Top-7 markets, each by type of location

### Outlook

- The price correction phase for low-risk core office properties will continue in the course of 2023 and will still severely restrict investment activity in this risk class.
- Office property yields will see further rise in 2023. For investors with sufficiently high equity backing, there are attractive investment opportunities, particularly against the backdrop of restrictive lending by banks.
- Cushman & Wakefield expects an increasing willingness to buy value-add or core-plus office properties in established office submarkets. Value growth potential can also be realised due to the recent strong increase in rents within the Top-7 markets.



# MARKETBEAT GERMANY

## Investment Q1 2023 – Retail



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### RETAIL PROPERTIES STRONGEST ASSET-CLASS FOR THE FIRST TIME SINCE 2015

For the first time since Q2 2015, retail properties again recorded a higher transaction volume than office properties. In Q1 2023, transaction volume amounted to €1.6 billion. Compared to the equivalent period last year, this is a decrease of 30%. Of all the property types examined, the decline in transaction volume was still the smallest here. The relatively positive result for the retail sector is due not least to the sale of 49.9% share of Berlin's KaDeWe to Harnq Central Department Store and the increase in Deutsche Euroshop's stake in five German shopping centres for around €260 million.

### LARGE TRANSACTIONS NO INDICATION OF A GENERAL TREND

The few large-volume transactions, such as the previously mentioned sale of Berlin's KaDeWe and Deutsche Euroshop's shareholding increase in five shopping centres, had a particularly strong impact within the individual property types. The transaction volume for high-street retail properties achieved an above-average proportion of 50%, that of shopping centres a share of 20%. The transactions recorded so far, therefore only permit low reliability analyses and conclusions on the general purchasing behaviour of investors at the current time. The strong investor demand for retail warehouses and retail parks is still, especially since the pandemic, very high, whereas the majority of investors are still acting very selectively in the case of high-street retail properties, not least against the backdrop of the increasing number of insolvency announcements from the fashion sector in particular over the past few quarters.

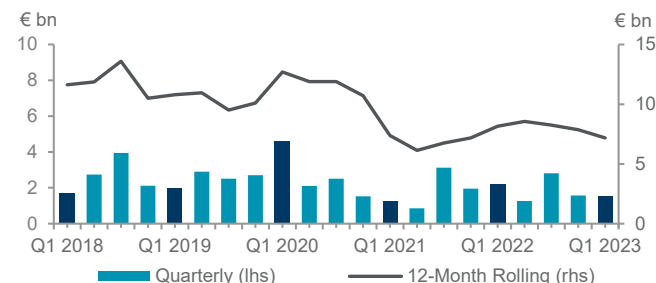
### PRIME YIELDS RISING FOR ALL RETAIL PROPERTY TYPES

The average prime yield for retail parks and retail warehouses in the Top-7 markets is at 4.60% in Q1 2023, up by 30 basis points compared to Q4 2022. The average prime yield for high-street retail properties is 3.90%, an increase by 30 basis points from Q4 2022. For shopping centres, the average prime yield has increased by 20 basis points over the past three months to its current level of 5.74%.

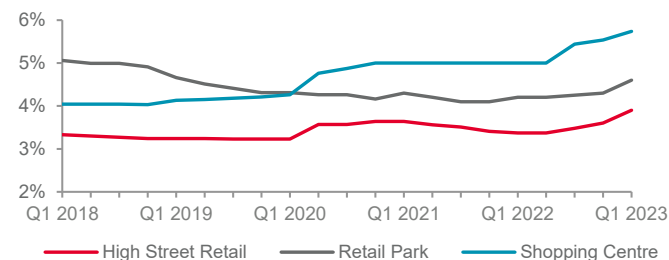
### Outlook

- Investors continue to focus on food-oriented retail properties. Cushman & Wakefield therefore expects a continued high propensity to buy in this segment, albeit at adjusted yields.
- The price and yield corrections for retail properties will be somewhat smaller than for office properties. Here, much of the price-setting process already took place during the pandemic.
- Investment activity for high-street retail properties and shopping centres is expected to remain subdued. Tenant creditworthiness is a particular focus. High inflation, subdued consumer spending and strong online retailing are putting pressure on chain stores. The situation is not expected to ease significantly in the course of the year.

### RETAIL TRANSACTION VOLUME

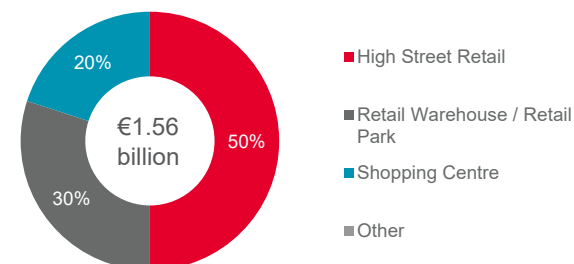


### PRIME YIELD BY TYPE OF PROPERTY



\* Average net initial yield in German Top-7 markets, each by type of property

### TRANSACTION VOLUME BY TYPE OF PROPERTY Q1 2023



# MARKETBEAT GERMANY

## Investment Q1 2023 – Industrial



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### WEAKEST START TO THE YEAR OVER THE LAST TEN YEARS

The steady increase in transaction volume for logistics and industrial properties, previously reported for several successive years, did not continue. In the first quarter of 2023, the transaction volume was €795 million, a decrease of 79% compared to the equivalent period last year. This made the first three months of 2023 the weakest first quarter since 2013. Two transactions of over €100 million each boosted the result, including the sale of the "Areal Böhler" industrial and commercial park in Meerbusch from the Voestalpine Group to Jamestown for €156 million. There have been no portfolio transaction in the year to date, so that the majority of the transaction volume was limited to sales in the less than €50 million price range.

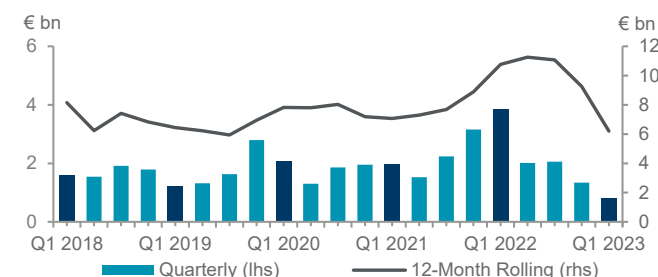
### ONLY DÜSSELDORF AND STUTTGART EXHIBIT INCREASED TRANSACTION VOLUME

For the first time ever, more than half of the total German logistics and industrial transaction volume is attributable to the Top-7 markets; some 64% or around €510 million in Q1 2023. Compared to the equivalent period last year, this represents a decline of almost 41%. The main reason for the above-average contribution of the Top-7 markets were the two major transactions over the €100 million mark. There were no such large transactions outside the Top-7 markets. Düsseldorf and Stuttgart posted strong year-on-year growth in transaction volume, while logistics and industrial transactions in Frankfurt almost completely ceased, down by 95%.

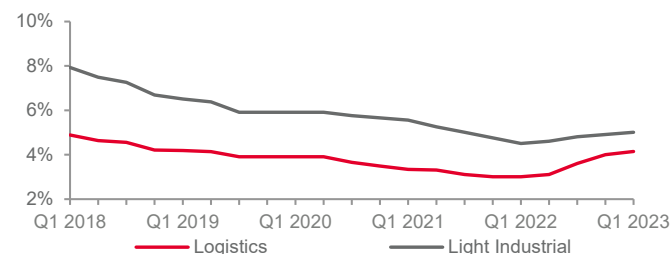
### PRIME YIELD FOR LOGISTICS PROPERTIES INCREASED SIGNIFICANTLY

The average prime yield for logistics properties in the Top-7 markets is currently 4.15%, 15 basis points higher than Q4 2022. Compared with Q1 2022, a strong increase of 114 basis points. The average prime yield for light-industrial properties moved out less sharply. It currently stands at 5.01%, 10 basis points above the level of the previous quarter and +50 basis points in year-on-year comparison.

### INDUSTRIAL TRANSACTION VOLUME

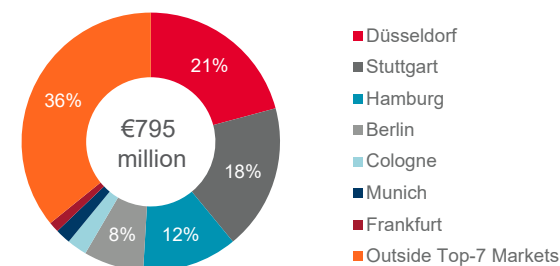


### PRIME YIELD BY TYPE OF PROPERTY



\* Average net initial yield in German Top-7 markets, each by type of property

### TRANSACTION VOLUME BY MARKET Q1 2023



### Outlook

- The transaction volume in 2023 will be significantly lower than in 2022, and the year-end result will depend to a large extent on whether more portfolio or larger single-asset transactions resume.
- It will take several months for buyers and sellers to converge on new and realistic purchase price levels. This is especially true for high-priced and large-volume properties, which are still being examined very selectively.
- In the course of the year, Cushman & Wakefield expects prime yields to continue to rise, although the increases are likely to be less significant than in the previous quarters.

# MARKETBEAT GERMANY

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Market	Transaction Volume (€ billion)	Change YoY (%)	Share Office Volume (%)	Share International Capital (%)	Office Prime Yield (%)	High Street Retail Prime Yield (%)	Logistics Prime Yield (%)
Berlin	1.16	-39	14	72	3.80	3.80	4.15
Dusseldorf	0.23	-85	28	68	3.90	3.50	4.15
Frankfurt	0.17	-93	45	30	3.80	4.10	4.15
Hamburg	0.22	-88	28	43	3.80	4.10	4.15
Cologne	0.07	-91	71	0	3.90	4.30	4.15
Munich	0.51	-47	37	53	3.50	3.40	4.15
Stuttgart	0.28	-53	0	0	4.10	4.10	4.15
<b>Germany</b>	<b>5.08</b>	<b>-72</b>	<b>21</b>	<b>34</b>	<b>3.83*</b>	<b>3.90*</b>	<b>4.15*</b>

\*Prime yield is net initial yield, displaying achievable values. Prime yield Germany = Average of Top-7 Markets

## SELECTED TRANSACTIONS 2023

Property / Transaction	Quarter	Type of Use	Location	Seller / Buyer	Price (€ million)
KaDeWe (49,9 % Share)	Q1	Retail	Berlin	Signa / Harnig Central Department Store	confidential
Increase in shareholding Deutsche Euroshop	Q1	Retail	Nationwide	Numerous partnerships / Deutsche Euroshop	~ 260
Seidlstraße 15-19	Q1	Office	München	Freistaat Bayern / Apple	~ 250
Areal Böhler	Q1	Industrial	Meerbusch	Voeastalpine / Jamestown	~ 160
Bauknecht Business Park	Q1	Industrial	Fellbach	Quantum / Bauknecht Immobilien Gruppe	~ 100
Nymphenburger Straße 112	Q1	Office	München	Allianz Lebensversicherung / Becken Holding	~ 65
Panattoni Park Hamburg – Nord	Q1	Industrial	Nützen	Panattoni / JP Morgan	~ 93

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