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Press Release

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Catella Research: German Office Markets Remain Stable During the Pandemic

After a year of the pandemic, the German office markets are proving to be largely resilient to the crisis, despite the continuing high level of uncertainty and the resulting decline in take up. Investment demand is ensuring stable returns, while the low supply of space in many locations is only leading to a marginal increase in vacancies. B and C cities have become more attractive overall. Nevertheless, the outlook for the economically lagging office sector remains murky and the strong rent and price increases of recent years are increasingly being replaced by consolidation measures at Break Options 2021/2022 in the leases. A total of 76 German office markets were examined.

Prof. Dr. Thomas Beyerle, Head of Research Catella Group, comments: "If you analyse the differences between the individual location categories A to D, it becomes apparent that the gaps in the average yields continue to narrow and the risk parameters, especially in locations B to D, are becoming increasingly mixed. For investors, this offers an extremely attractive diversification potential with a broad spectrum of property- and location-specific risk factors."

The facts:

- The rental price development of the past 12 months lies within a very narrow range of +1% (A locations) to -1% (B locations) and shows itself to be a fixed constant in 2020. The top 7 currently record an average prime rent of €33.64/sqm, in the B cities it has fallen moderately to €15.87/sqm.
- The numerous C and D locations show even less impetus on average with 0.43% and 0.44% rental growth. In absolute figures, we see monthly rents of €14.16/sqm and €11.40/sqm respectively.
- The strongest rent declines, not only due to the low take-up, were observed in Cottbus and Neuss. Hamburg clearly stands out among the A locations with a plus of 6.9%. Rostock and Schweinfurt, meanwhile, can boast double-digit growth rates.
- The front-runner in office rents remains Frankfurt with €45.00/sqm - we see the lowest value in Gera in Thuringia with currently €7.50/sqm, followed by Salzgitter with €7.80/sqm.
- The average prime yield in the top 7 locations remains well below the 3% mark. Supported by the unabated high demand for core properties and the renewed decline in long-term interest rates, the prime yield has fallen by 5 bp to 2.83%. Here, too, Hamburg stands out with a decline of 15 bp to 2.7%. Nevertheless, further interest rate fantasies and deflation worries are likely to have dissipated slowly, limiting further room for manoeuvre in the medium term.
- The lowest prime yields are still to be found in Berlin and Munich at 2.60% each, the highest measured value is achieved in Wilhelmshaven (6.9%) followed by Hagen and Solingen at 6.8% each.
- Further yield compression, in some cases strong, can also be observed in the remaining location categories. Particularly in B (-65 bp) and C (-111 bp) cities such as Nuremberg, Leipzig and Wiesbaden, high investor demand is ensuring relatively strong transaction

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volumes and rising market values. However, the yields are not directly comparable with the previous year due to methodological changes in the data collection. Investors see a balanced risk-return profile here and are primarily looking for sustainable cash flow when investing.
- Looking at the total return (TR) over the past 10 years, Berlin is the lonely leader with an average annual total return of 20.64%, followed by Leipzig (18.61%) and Dresden (17.06%). These are disproportionately due to increased market values, i.e. yield compression. The other top 7 locations also show a significantly lower share of the rental component.
- Overall, the A cities (14.56%) lead the unweighted TR well ahead of the B cities with 13.02%, followed by the C cities (12.76%) and D cities (11.6%).
- Jena, Kassel, Wuppertal, Braunschweig and Essen show a balanced relationship between rental yield and change in value. Chemnitz and Fürth stand out with a disproportionately strong total return relative to the D cities. In contrast, Bremen and Duisburg lag behind the B cities.
- For the A cities, we see limited room for manoeuvre as far as the TR forecast for the coming years is concerned, as the possibility of further yield compression is limited here. Thus, mid-sized cities with a higher initial yield could gain further attractiveness.

The complete study can be downloaded here:
https://www.catella.com/en/germany/research

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