

Frankfurt am Main, 25 March 2020

Catella Office Market Map 2020: Constant rents and returns in the next six months

The forthcoming economic phase will undoubtedly be more volatile and recessionary. Methodologically, it is impossible to make serious forecasts about future developments, but it is clear that the economic implications of Covid-19 will also affect the office markets in the further course of the year, despite the inertia of the markets. Especially in the more volatile top office markets, Catella sees a constant top rent and yield level in the coming six months, but in the best case scenario it expects higher activity in the third and fourth quarter. The Catella office market map 2020 provides a detailed picture of the current state of the 76 German office markets examined with the variables top rent and top yield as well as the respective 6-month trend.

Prof. Dr. Thomas Beyerle, Head of Group Research at Catella, comments: "If one analyses the differences between the location categories A to D, it becomes clear that the differences in average returns are constantly decreasing and that the risk parameters are becoming increasingly mixed, especially at locations B to D. This offers investors an extremely attractive diversification potential with a wide range of property and location-specific risk factors".

The numbers:

- The strongest increase in rents over the past 12 months was not at the 7 A locations with +7.2% to now an average of €33.29 per square metre, but at the D locations with a strong +8.3% to currently €11.35 per square metre, which thus exceeded the €11 mark on average for the first time.
- Very positive growth rates are also recorded at the 30 C locations. On average, the top rent increased by +5.6% to €14.10/sqm.
- The lowest rent increases this year were recorded at the 14 B locations with +3.1%. Although the average prime rent is now €16.02/sqm, the absolute difference between the C locations has shrunk to less than €2/sqm. In Leipzig and Hanover almost double-digit growth rates were recorded.
- The front-runner in office rents is currently Frankfurt with €45.00/sqm - the lowest value is measured in Gera in Thuringia with currently €7.50/sqm, followed by Salzgitter with €8.00/sqm.
- The average prime yield at the 7 A locations has now fallen below the 3% threshold and currently stands at 2.88%. In comparison with the previous year, this is a decline of 18 basis points. Nevertheless, the strong yield compression of previous years has flattened out considerably as investors are becoming more selective and rational, and are also considering other risk classes (Core+, Value-Add).
- A look at the remaining location categories also clearly shows the demand for office investments: the sharpest drop in yields within Germany was recorded at the 26 locations in the D category. On average, the yield fell by 50 basis points to 6.20%. In 2017, the smallest yield movement was still measured in this location category.

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- Yield compression at the B and C locations has been without major differences over the past 12 months (-40 bp at the B locations and -31 bp at the C locations). At the same time, the yield spread has not narrowed any further and currently stands at 92 basis points (83 basis points in the previous year). Investors are proceeding here with a balanced risk-return understanding and are relying above all on a sustainable cash flow for their investment.
- The lowest gross yields are currently found in Berlin and Munich, each with 2.60%, the highest measured value is achieved in Solingen and Wilhelmshaven (7.50%), followed by Siegen (7.20%) and Weimar with 7.10%.

The complete study can be downloaded here:

<https://www.catella.com/en/germany/research>

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