

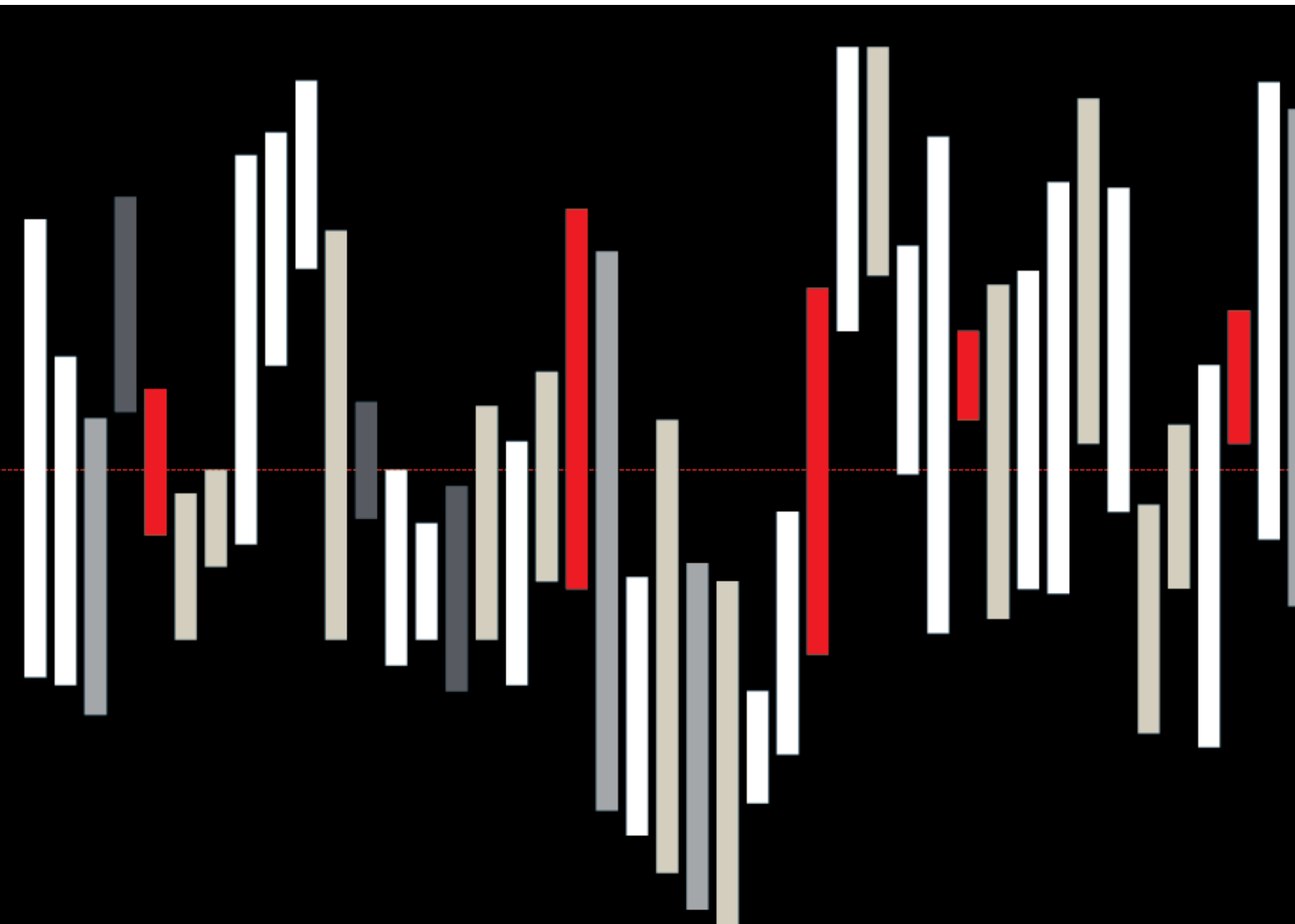
Research

# Investment Market Overview

Q4 2023

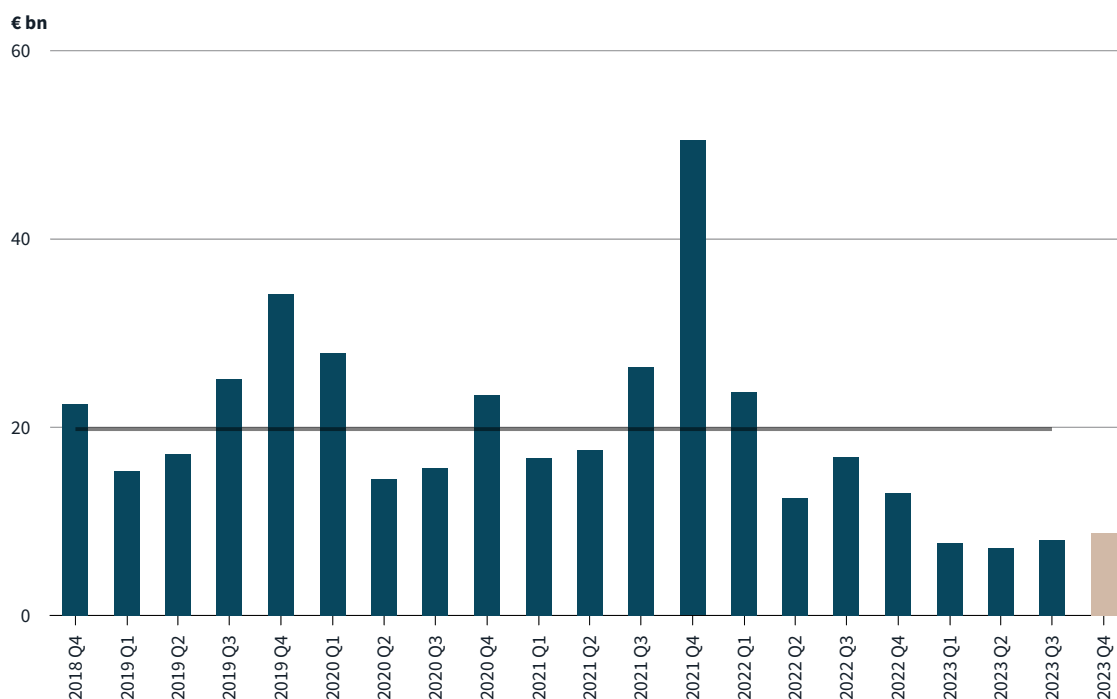
## The real estate investment market has bottomed out

2023 transaction volume estimated at just under €32 billion



In the German real estate investment market, the only constructive thing to do after a historic low is to look ahead. At the end of 2023, the transaction volume in Germany totalled €31.7 billion, down 52 per cent on the previous year, making 2023 the worst investment year since 2011. The result was also 58 per cent below the ten-year average. Although several transactions were completed in December and JLL registered slightly more activity again as interest rates stabilised, there was no sign of a classic year-end rally. This is borne out by the figures. With a transaction volume of just under €8.8 billion in the fourth and traditionally strongest quarter of the year, the last three months contributed a mere 28 per cent to the overall annual result. By comparison, the previous average for a fourth quarter over the past ten years was 33 per cent.

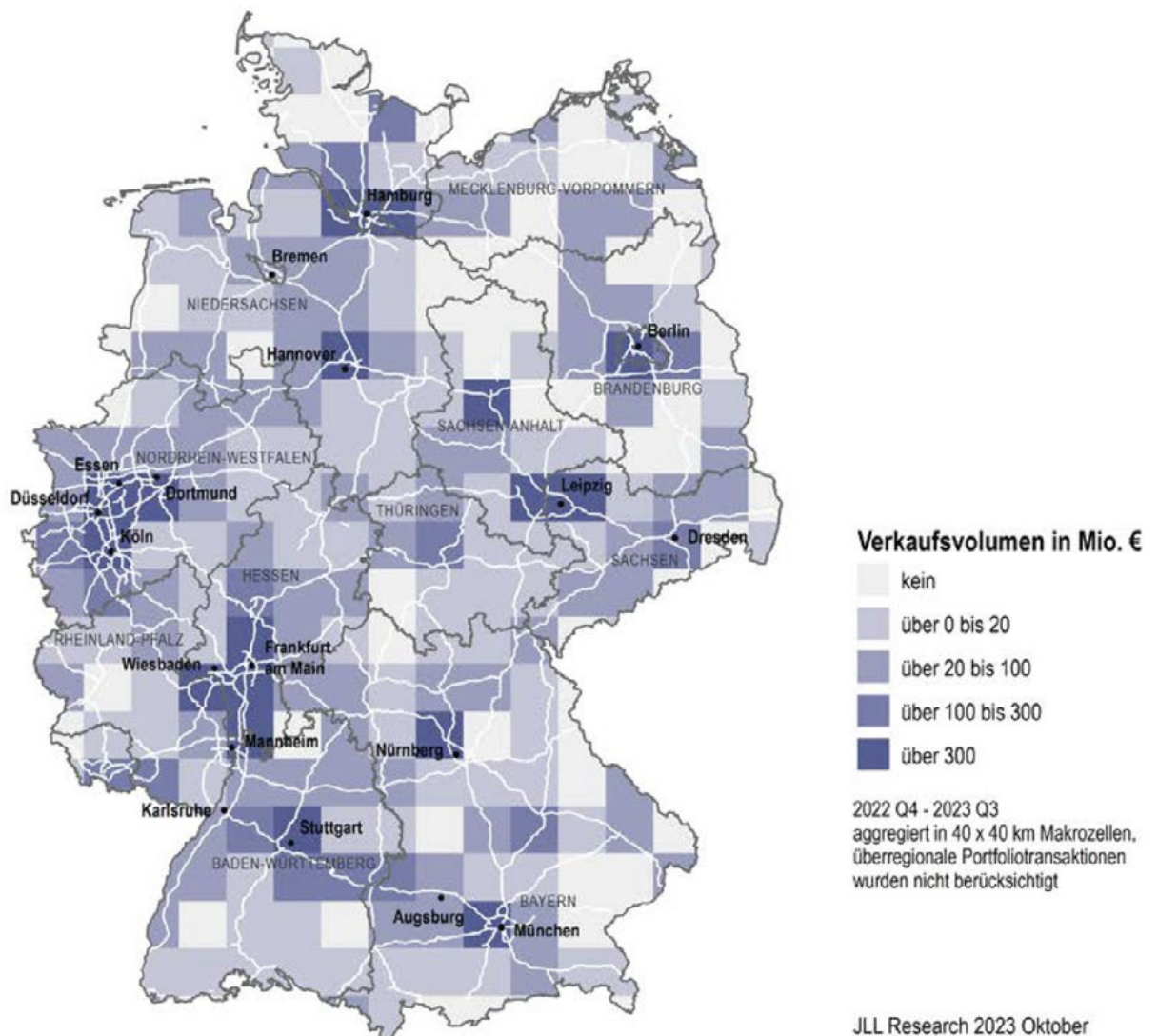
## Transaction Volume Germany



Status: January 2024; Source: JLL

While 2023 was a tough test for the real estate industry, next year will be another difficult one, but this time with a clearer perspective. Given that interest rates should at least remain stable, there is optimism that 2024 will see the bottoming-out of the crisis and the start of a recovery in the real estate industry. Nonetheless, there is a general consensus that a lot of hard work will be needed by the industry over the next few years to get back on the road to success. Yet, in view of the many challenges, from interest rates to geopolitical conflicts and the 'global super election year 2024', it remains to be seen whether the recovery will be slow or whether there will be sufficient momentum to drive a rapid upswing.

## Investment Volume Germany



## Interest rate optimism is slowly spreading again

Will the new year also mark the start of a new cycle? A glance at the financial markets and interest rate trends in the final weeks of 2023 would indicate that a turning point has been reached. For instance, financing conditions measured by the five-year swap rates were slightly above 2.4 per cent on 29 December, down more than 100 basis points within two months and the lowest level reported since September 2022. The current yield on German government bonds shows a similar picture. This interest rate optimism is based on the expectations of market participants that the interest rate hikes imposed by central banks are not only over, but that rates could even reduce in the course of 2024, despite the very different opinions about the exact timing of the first interest rate cut.

The European Central Bank in particular is still being decidedly cautious in its rhetoric, with the further development of inflation remaining the yardstick for future interest rate policy. JLL itself does not expect the first interest rate cut before June. Whatever the exact development will be, the current and expected interest rate shifts should give the markets, and the debt-dependent real estate industry in particular, slightly more predictability and security heading into the new year.

Given the prevailing economic and geopolitical uncertainties, such stimuli are vital. Predictability and certainty of action are of the upmost importance for institutional and long-term investors. Property remains a key component of a balanced investment portfolio and a renewed interest is reflected in the inflow of funds from international funds and investment companies. The products available on the market could prove to be a bottleneck, but not all portfolio holders will be able to afford to simply 'sit out' the market phase. The investment peak of the last cycle was in 2019 with a transaction volume of around €37 billion for office properties. Assuming a five-year debt financing term, there are likely to be many refinancing transactions this year that may not be successfully completed. An increase in the supply of (particularly) office properties is therefore to be expected. For those who continue to believe in the future of the office, distressed assets are also likely to present purchase opportunities.

**€32 bn**

**volume of transactions  
in 2023**

**-52 %**

**compared to 2022**

With a view to future years, refinancing could become a key aspect. Globally, JLL forecasts that loans maturing by the end of 2025 will total US\$2.1 trillion based on average loan-to-value (LTV) ratios. New equity will be required to keep LTV ratios stable and to continue to honour the debt service obligations. The greatest risk is posed by assets that have been financed at peak valuations in recent years.

## **Institutional investors to become more active once again**

Depending on how central banks position their interest rate policies, a more dynamic upward trend could quickly materialise in the course of 2024. Based on the current market conditions, a 20-30 per cent increase in transactions in 2024 compared to 2023 could be considered realistic. This envisages the return of institutional investors who operated in observation mode for most of 2023. There are already signs that such investors are slowly becoming more active and directing their focus to real estate once again. A major contributor to this trend has been the sharp fall in bond yields which have returned to negative territory in real terms after adjustment for inflation.

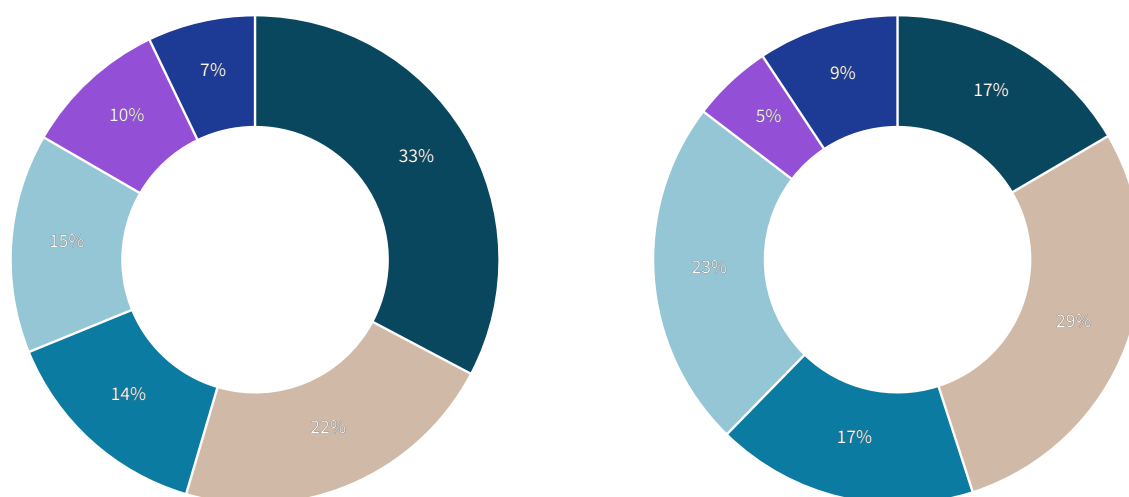
Portfolio and single-asset transactions are equally affected by the 52 per cent decline in the transaction volume. Single-asset transactions generated just under €20 billion in 2023 (-49 per cent), while portfolio deals accounted for €12 billion (-56 per cent).

Major transactions remained a rarity in the past year. The list of the largest deals in 2023 is headed by three transactions in the €1 billion range, including two in the Living segment. In the second quarter, Vonovia sold around 30 per cent of its share in the Südewo Portfolio to Apollo, while the disposal of supermarkets and convenience retail stores from x+bricks to Slate Asset Management was completed in the third quarter. Shares in another residential portfolio changed hands in the fourth quarter with Vonovia selling a 30 per cent stake in 31,000 apartments in northern Germany to Apollo. There were 49 transactions in the three-digit million range in 2023, a significant decrease compared to the previous year (121 transactions). Of these, the Logistics & Industrial segment accounted for just under a third (16), followed by the Living and Office segments, each with ten transactions.

## Transaction Volume by Main Asset Class Germany

2022: € 66.0 bn

2023: € 31.7 bn



■ Office ■ Living ■ Retail ■ Logistics-Industrial ■ Mixed use ■ other\*

\* Hotels, Sites, Special Properties  
Status: January 2024; Source: JLL

## Office investments rank just fourth in a comparison of real estate segments

The sectoral trends continued in the final quarter of the year with the Office segment under particular pressure. The market for office investments almost completely collapsed in 2023 with office properties accounting for just under 17 per cent of the total transaction volume at the end of the year, compared to an average of 33 per cent over the past five years. With just €5.2 billion invested in this real estate segment in 2023, and therefore the lowest result registered since the cyclical low in 2009 following the financial crisis, it ranked a mere fourth among all real estate segments.

The Living segment assumed first place with a share of just under 29 per cent, ahead of Logistics & Industrial with 23 per cent, a new record since JLL began its nationwide survey in 2006. Retail properties accounted for 17 per cent. There were simply not enough products, particularly in the Logistics, Retail and niche segments such as Healthcare, to meet demand. Nonetheless, the existing supply meets the current demand preferences of many investors due to the mostly smaller volumes.

## Number of portfolios

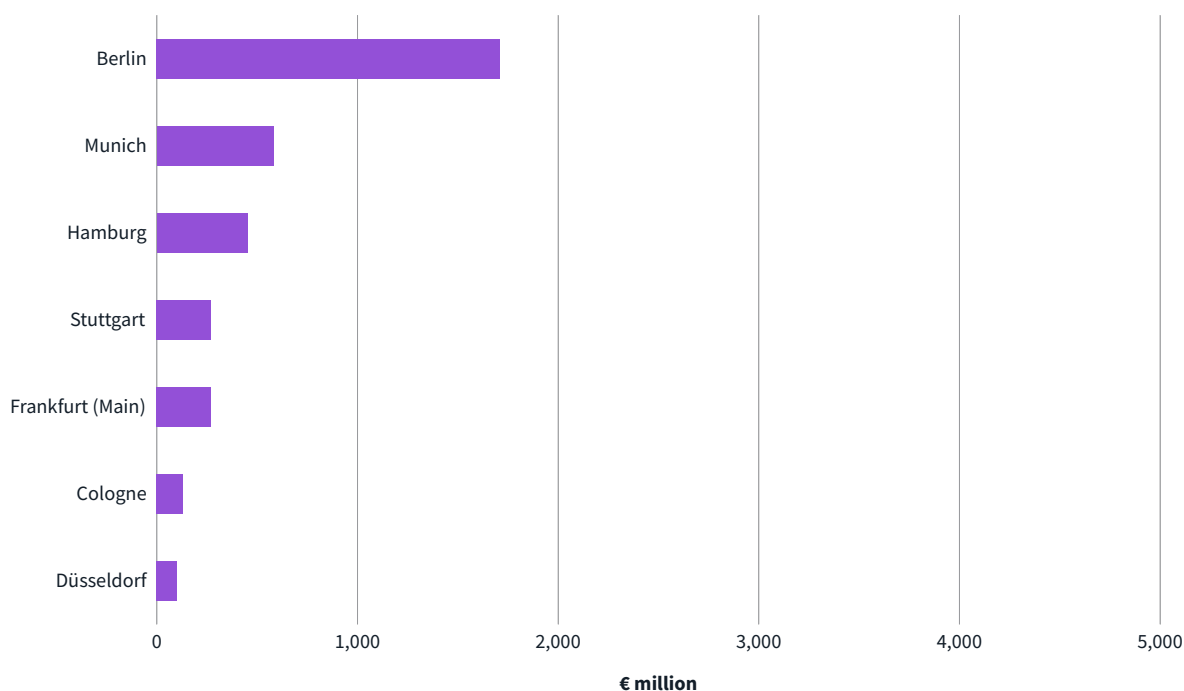
**60** **24**  
2022 2023

Volume each  $\geq$  €100 mn

At €12.8 billion, the Top 7 real estate markets accounted for 40 per cent of the nationwide transaction volume. The year-on-year decline of 60 per cent was slightly greater than outside the Top 7 (-45 per cent). This was mainly due to the weak performance of the Office segment in which the Top 7 markets have traditionally played a major role and continued to do so in 2023. One of the Top 7 markets accounted for 69 per cent of the office transaction volume in Germany last year, while the Living (39 per cent), Retail (26 per cent) and Logistics & Industrial (24 per cent) segments accounted for just a quarter.

### Transaction volume 2023

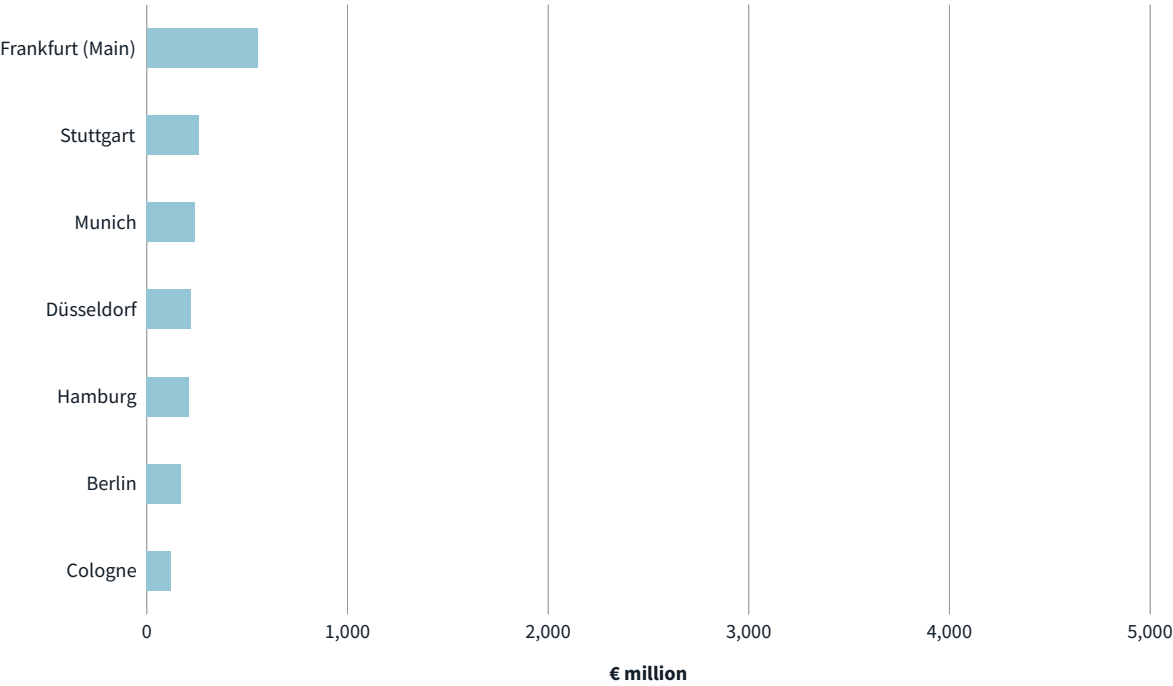
Living Logistics-Industrial Office Retail Total



Status: January 2024; Source: JLL

Transaction volume 2023

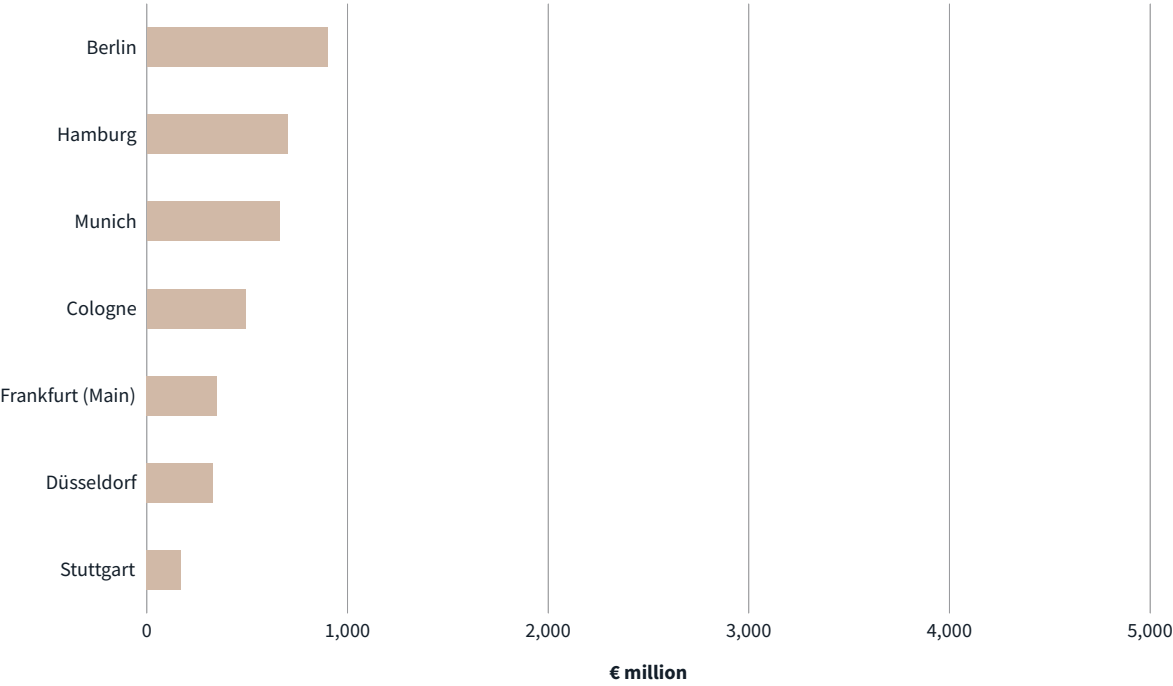
Living **Logistics-Industrial** Office Retail Total



Status: January 2024; Source: JLL

Transaction volume 2023

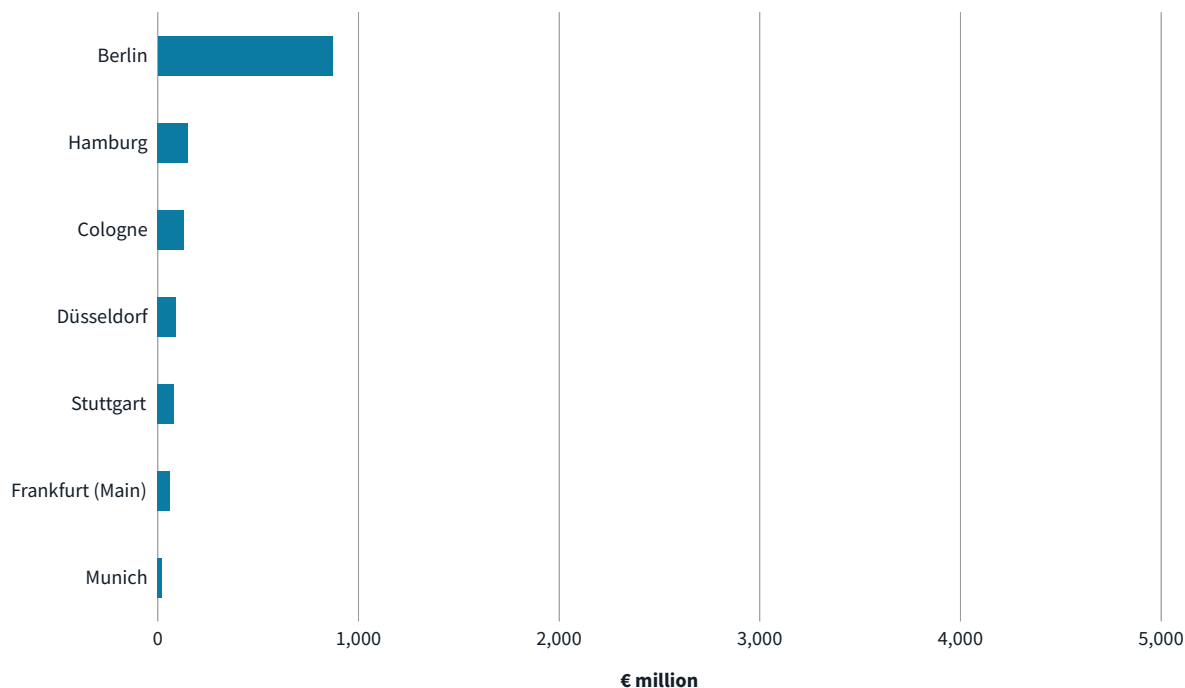
Living **Logistics-Industrial** Office Retail Total



Status: January 2024; Source: JLL

## Transaction volume 2023

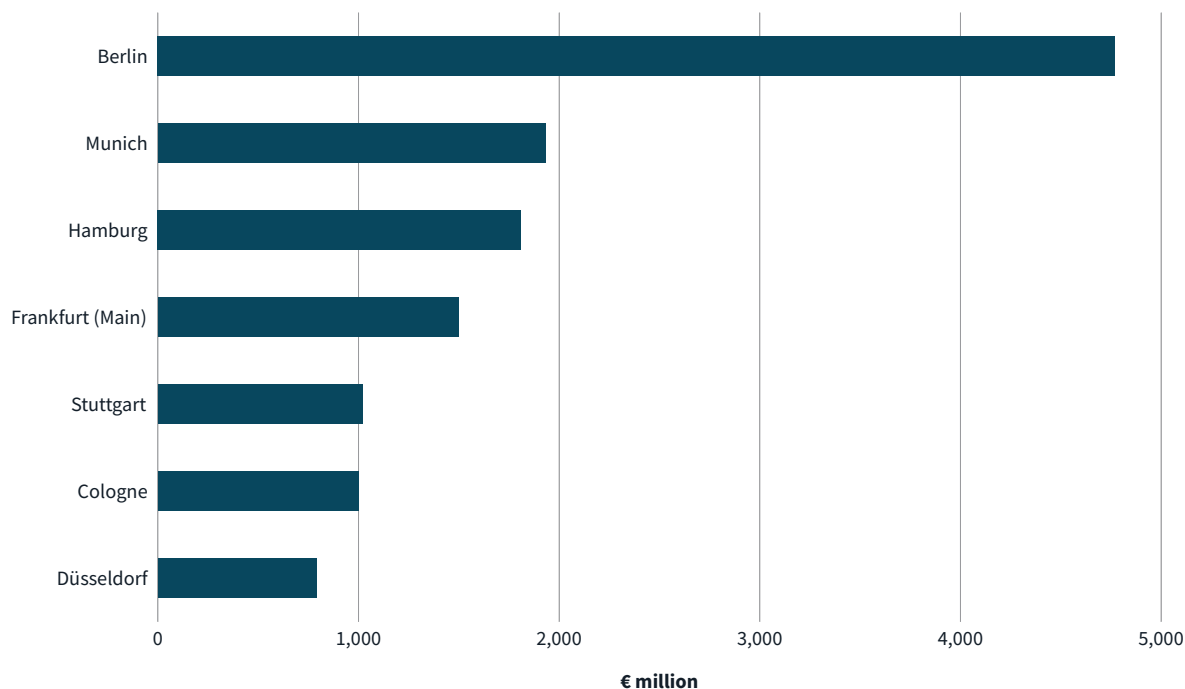
Living	Logistics-Industrial	Office	Retail	Total
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Status: January 2024; Source: JLL

## Transaction volume 2023

Living	Logistics-Industrial	Office	Retail	Total
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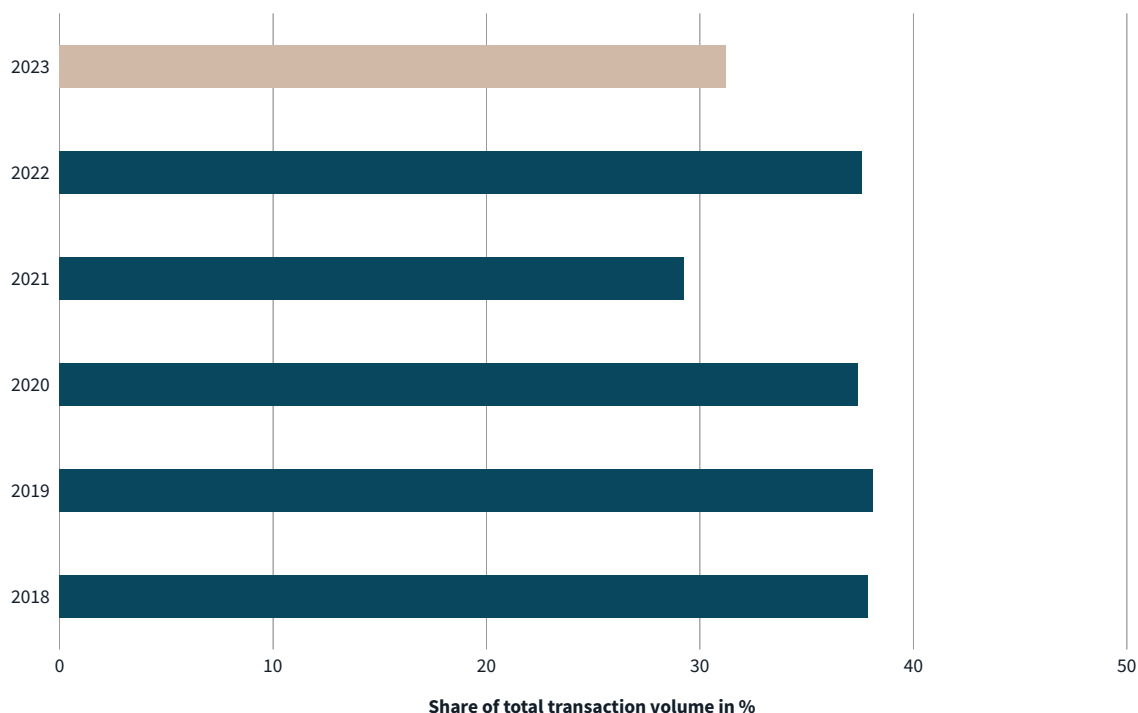
Status: January 2024; Source: JLL



## Rise in yields slows - positive leverage effect evident again

The sharp fall in bond yields will certainly ease pressure on property prices and yields in the new year. However, it should not be forgotten that property is a lagging asset class and that the effects of past interest rate rises are not yet fully reflected in property valuations and prices. Therefore, little movement in yields is expected in 2024, giving scope for a fall in yields in 2025 at the earliest. Conversely, this means that there should once again be interesting entry opportunities for investors in certain segments of the market in 2024.

### Purchases of foreign investors

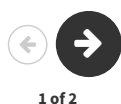


Status: January 2024; Source: JLL

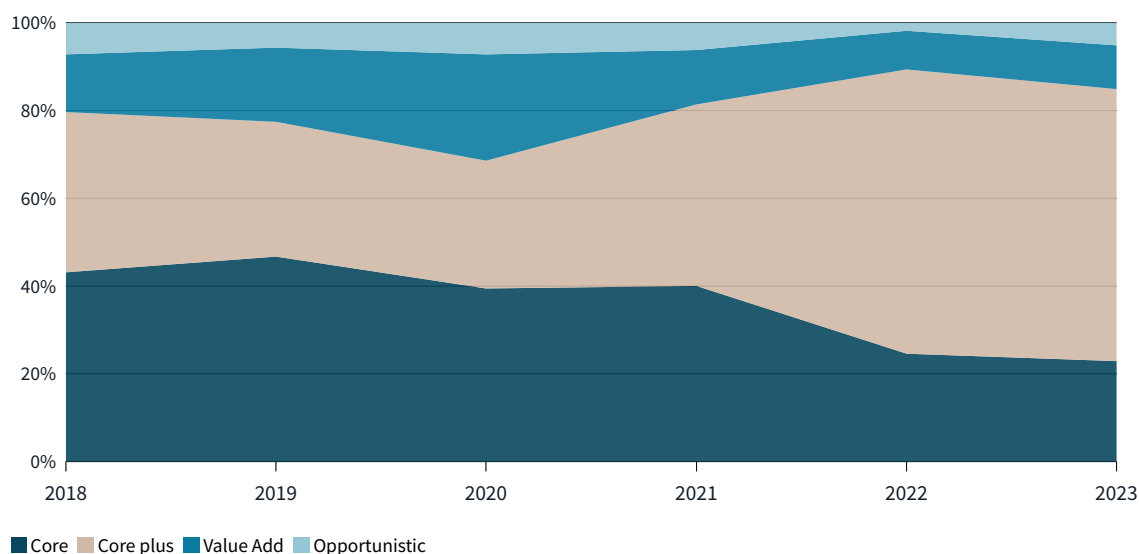


JLL currently expects the prime yield for office property to average 4.29 per cent across the Top 7 strongholds. This figure is around ten basis points below JLL's October forecast and reflects the stabilisation indicated above, including the evidence of transaction activity. This forecast points to a year-on-year increase of almost 100 basis points and an increase of 166 basis points compared to the lowest yield levels recorded in the first quarter of 2022. With financing conditions (interest rates and margins) improving significantly at the same time, by the end of the year many investments may benefit from positive leverage effects through the use of debt capital, the first time such an opportunity has existed since early 2022.

Moreover, given that bond yields have also fallen sharply and the risk premium for property has more than doubled from its low at the beginning of the year to its current level of 230 basis points, it is also interesting to look at yield trends outside the Core risk category. In secondary locations for instance, yields have increased by between 192 and 259 basis points since the first quarter of 2022, depending on the standard of interior design and finish, lease durations and the ESG compliance of the property. This once again emphasises investors' focus on quality.



## Transaction Volume by Risk Profile of the Investments Germany

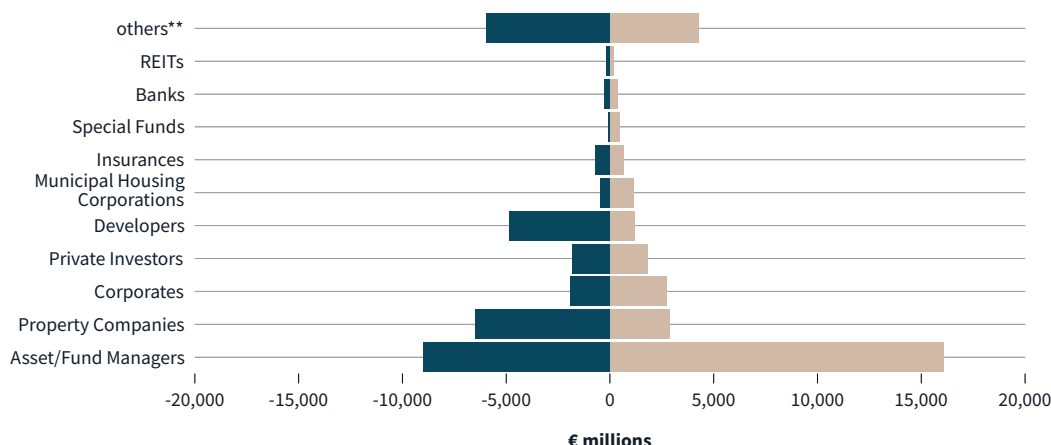


Status: January 2024; Source: JLL



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## Transaction Volume by Vendor and Purchaser Type Germany\* / Top-10 Players



■ Vendor ■ Purchaser

\*Period: 2023 Q1 - 2023 Q4

\*\*others: Pension Funds, Non-Profit Organisations, Open-ended Public Funds, Cooperatives

Status: January 2024; Source: JLL

There were very different developments observed in the other real estate segments during 2023. In the Retail segment, the differences between food-anchored properties and non-food specialist stores such as DIY stores were particularly evident. For the latter, initial yields rose by 100 basis points during the year to their current level of 5.9 per cent, while supermarkets and discounters observed a much more moderate increase of only 25-60 basis points. Yields for shopping centres fell by a further 50 basis points to 5.5 per cent, although most of the yield adjustment had already taken place in previous years.

## High-street products and residential property achieve the lowest prime yields

High-street retail properties are still proving to be extremely price-robust with JLL continuing to observe high sales multipliers here. The average prime net initial yield for the Top 7 real estate strongholds remains relatively stable at 3.5 per cent, just under 30 basis points above the previous year's level. Alongside properties in the main shopping streets of city centres, residential properties (apartment blocks) are the most expensive at an average of 3.71 per cent, despite a 73 basis point increase in prime yields. Logistic properties, which were briefly more expensive than offices in recent months, are currently yielding 4.41 per cent, 48 basis points higher than at the end of 2022.



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Office prime yields (in %)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Berlin	3,20	3,45	3,70	4,05	4,20
Düsseldorf	3,35	3,60	3,90	4,25	4,45
Frankfurt (Main)	3,40	3,65	3,90	4,25	4,45
Hamburg	3,25	3,50	3,75	4,05	4,15
Cologne	3,35	3,55	3,90	4,25	4,45
Munich	3,20	3,45	3,70	4,05	4,15
Stuttgart	3,40	3,50	3,60	3,95	4,15

Status: January 2024; Source: JLL



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Prime yields (aggregated net initial yield in Big 7 in %)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Office	3,31	3,53	3,78	4,12	4,29
Retail: Shopping center	5,00	5,00	5,00	5,25	5,50
Retail: Warehousing parks	3,90	4,15	4,40	4,60	4,60
Retail: Warehousing solus units	4,90	5,10	5,50	5,85	5,90
Retail: High street	3,21	3,39	3,49	3,49	3,50
Multi-family	2,98	3,14	3,38	3,56	3,71
Logistics-Industrial	3,93	3,93	4,03	4,15	4,41

Status: January 2024; Source: JLL



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Transaction volume Germany	2022 (€ m)	2023 (€ m)	year-on-year (in %)
Single assets	38.600	19.600	-49
Portfolios	27.400	12.100	-56
Total	66.000	31.700	-52

Status: January 2024; Source: JLL



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Transaction volume Big 7 cities	2022 (€ m)	2023 (€ m)	year-on-year (in %)
Berlin	10.990	4.770	-57
Düsseldorf	2.820	790	-72
Frankfurt (Main)	5.230	1.500	-71
Hamburg	6.290	1.810	-71
Cologne	1.170	1.000	-15
Munich	4.360	1.930	-56
Stuttgart	1.130	1.020	-10
Total	32.000	12.830	-60

Status: January 2024; Source: JLL

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