

Research

# VICTOR Prime Office

Q4 2023

## Valuation Performance Indicator

Indicator level: 166.6

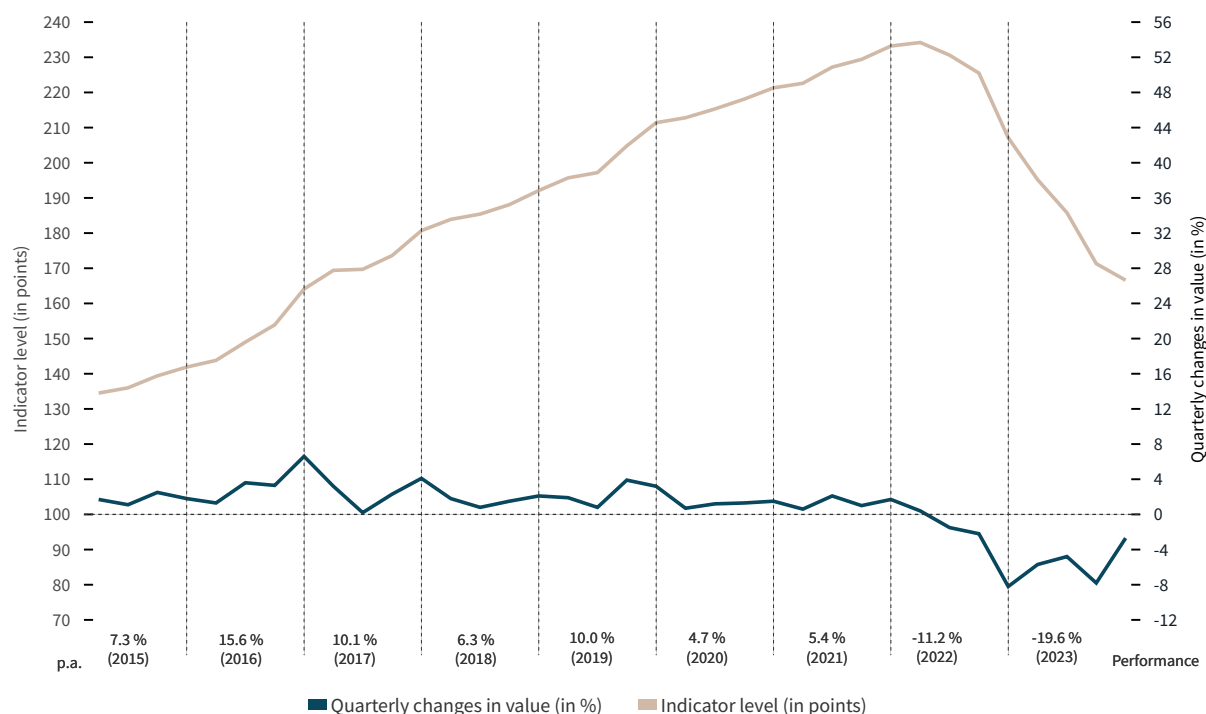
Change from previous quarter: -2.7%



## Prime Office

Unweighted average of all submarkets

### Valuation Performance Indicator



At **-19.6%**, the current annual performance of the Victor Prime Office Indicator fell even more sharply in 2023 than in the previous year (-11.2%). While there was slight indicator growth in 2022, at least in the first quarter, all four quarters in 2023 showed a negative performance. However, the decline in value slowed in the fourth quarter of 2023. The indicator fell by **-2.7%** (Q2 2023: -4.8%; Q3 2023: -7.8%) to a new level of **166.6 points**. It is therefore currently at the same level as at the start of 2017 and five years of growth have been relativised in just seven quarters. The main reason for the sharp declines is the impetus from the capital market with significant increases in prime yields, which rose by an average of 100 basis points over the course of the year in the five property strongholds under review. The transaction volume on the office property market slumped significantly. Only around €2.9 billion was invested in offices in the top 5, which corresponds to a decline of almost 80 per cent compared to 2022. For a long time, the rental markets defied the challenging environment, but the economic weakness finally had an impact on leasing activity. The weakening demand also dampened rental price momentum. In the final quarter, prime rents only rose in Berlin and Munich, which also recorded the strongest increases in prime rents for the year as a whole.

The total return has fallen further due to the decline in performance and stands at **-16.3%** for 2023 after -8.6% in the previous year. It remains to be seen whether the peak has been reached with the current rise in yields; further corrections are possible in the first half of the year. The end of the interest rate hike cycle by the European Central Bank is likely to have a stabilising effect, giving investors more predictability for their business plans.

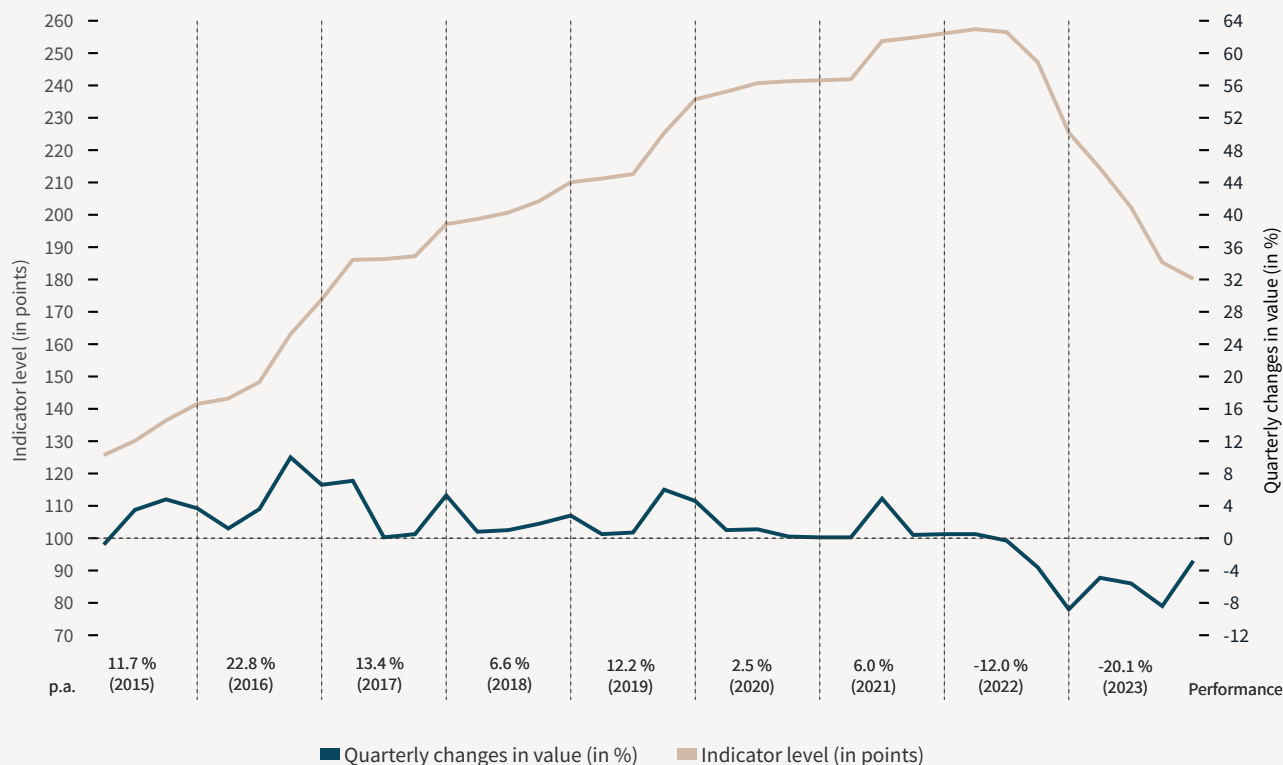
#### Berlin, Dusseldorf, Frankfurt, Hamburg and Munich, prime office market locations

Indicator peak (Q1 2022)	234.2
Indicator low point (Q4 2004)	94.5
Change since trend reversal (Q2 2009)	68.5%
Change since peak (Q2 2007)	35.3%
Change since low point	76.3%

# Berlin

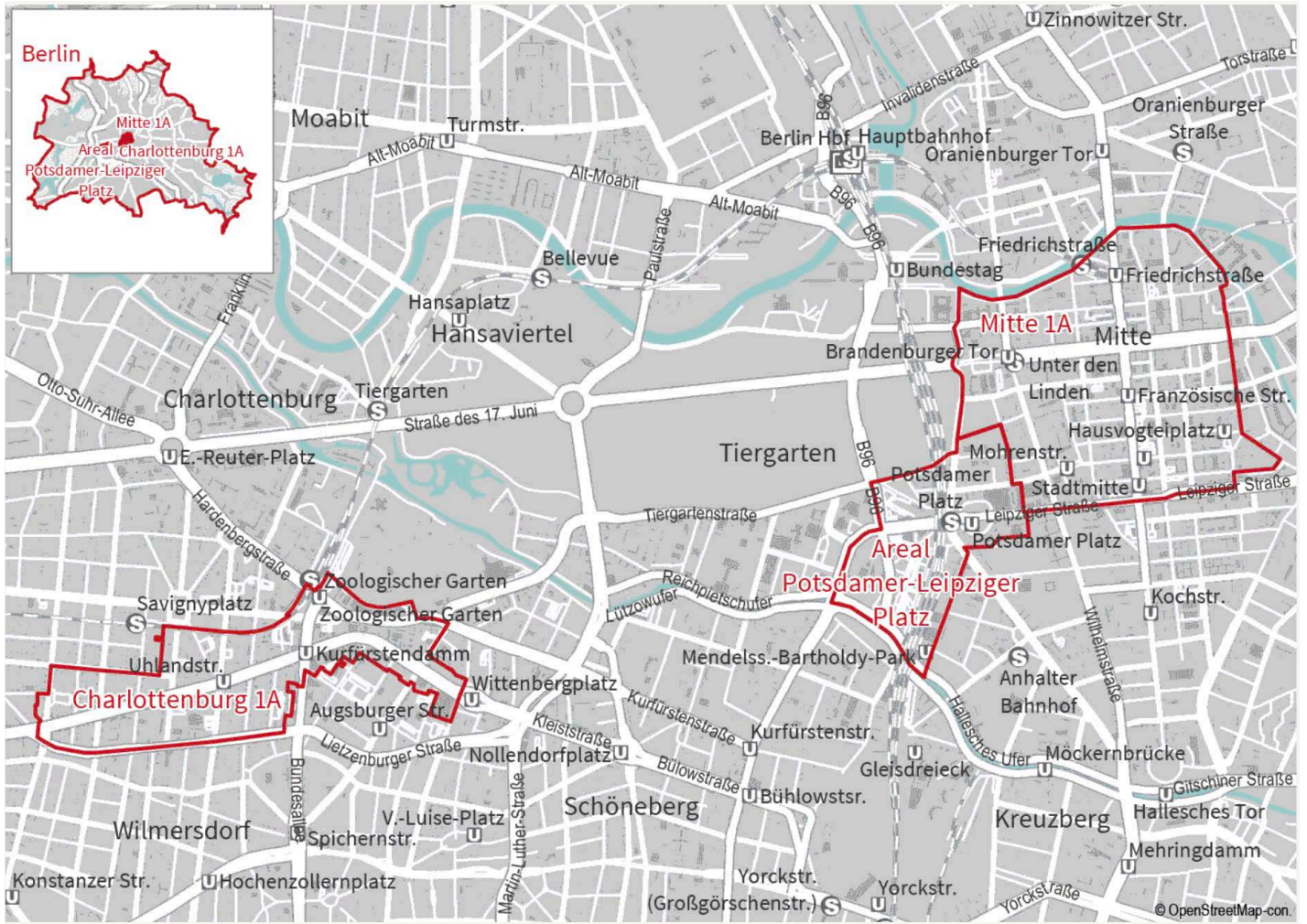
Q4 2023

## Valuation Performance Indicator



At **-20.1%**, Berlin's prime location recorded the sharpest decline in annual performance (2022: -12.0%). The main reason for this was the above-average declines in the second and third quarters (Q2 2023: -5.6%; Q3 2023: -8.4%). In the final quarter, the capital was right in the middle of the five property strongholds at **-2.8%**. After Berlin had the highest absolute indicator level among the metropolises under review in the first half of the year, it lost this title to Hamburg in the second half of the year. The new indicator level stands at **180.2 points**, falling below the level of the first quarter of 2017 (186.1 points). The negative performance is largely due to the 100 basis point increase in prime yields over the course of the year. Although prime rents rose slightly as a result of the continued focus on top space in prime locations, they were hardly able to mitigate the strong effect from the capital market. At **-16.9 %**, the total return was low both compared to the previous year (-9.5%) and in comparison to the other property strongholds.

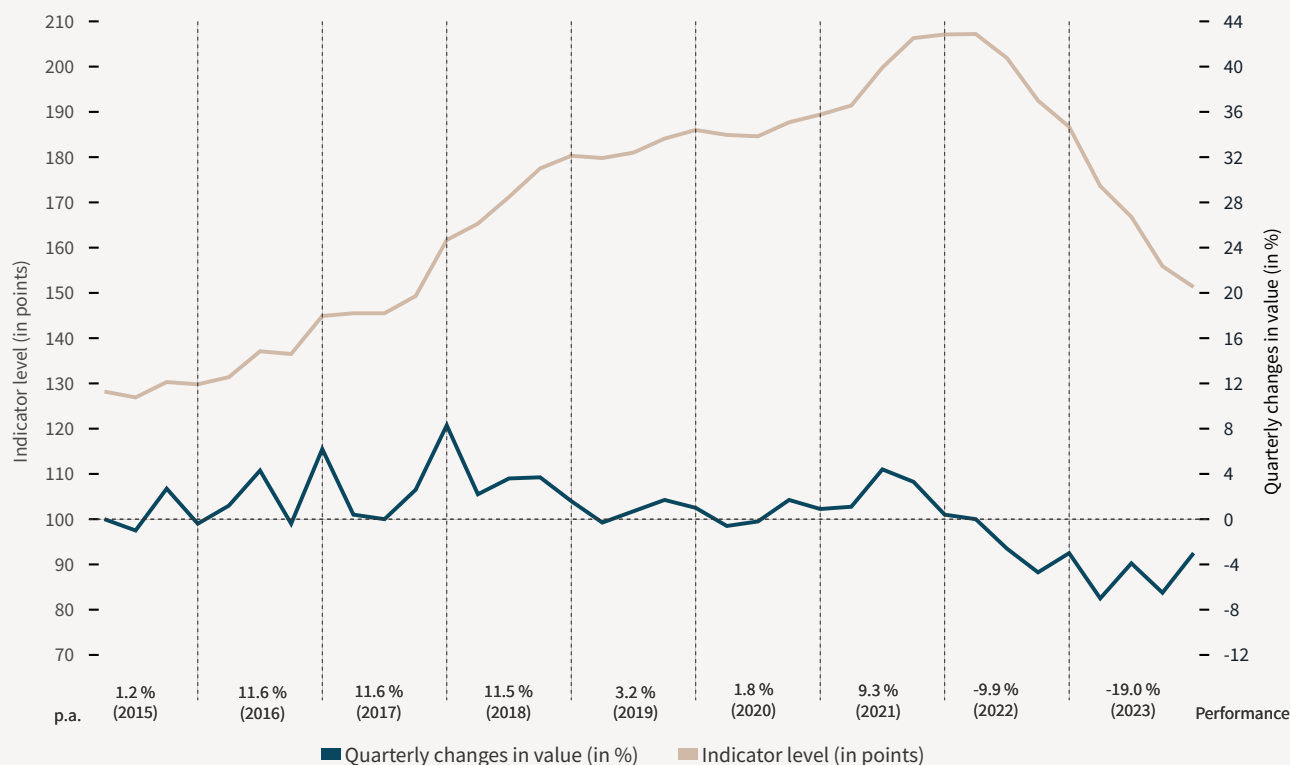
Indicator peak (Q1 2022)	257.4
Indicator low point (Q4 2004)	92.4
Change since trend reversal (Q2 2009)	89.1%
Change since peak (Q2 2007)	65.6%
Change since low point	95.0%



# Dusseldorf

Q4 2023

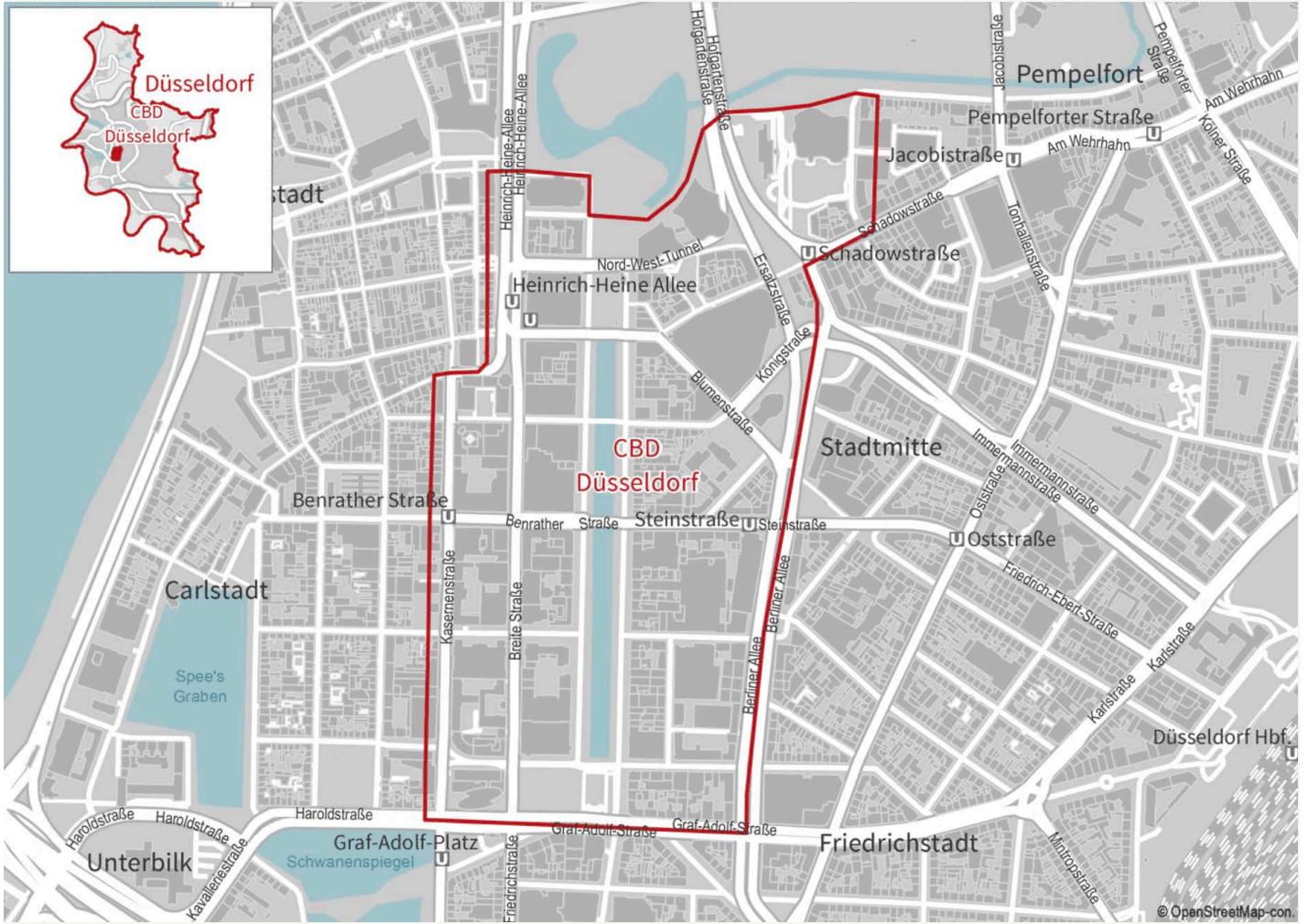
## Valuation Performance Indicator



After Dusseldorf recorded the lowest performance declines of the cities analysed in the past two quarters (Q3 2023: -6.5%; Q2 2023: -3.9%), the decline in the fourth quarter was above average at **-3.0%**. As in the other property strongholds, the impetus from the capital market was largely responsible for this development. In the fourth quarter alone, the prime yield in Dusseldorf rose by 20 basis points. By contrast, rental momentum weakened, with the result that stagnating prime rents and hardly any movement in market rents were unable to compensate for the high increases in yields. In terms of annual performance, the above-average previous quarters mitigated the overall loss, with the result that Dusseldorf's banking location recorded the lowest loss in value among the property strongholds under review in 2023 at **-19.0%**. The new indicator level stands at **151.3 points**. This means that the indicator level is still the lowest among the property strongholds under review, but the gap to Frankfurt with the second-lowest value has almost closed.

Indicator peak (Q1 2022)	207.2
Indicator low point (Q3 2005)	95.8
Change since trend reversal (Q3 2009)	52.7%
Change since peak (Q2 2007)	22.6%
Change since low point	57.9%

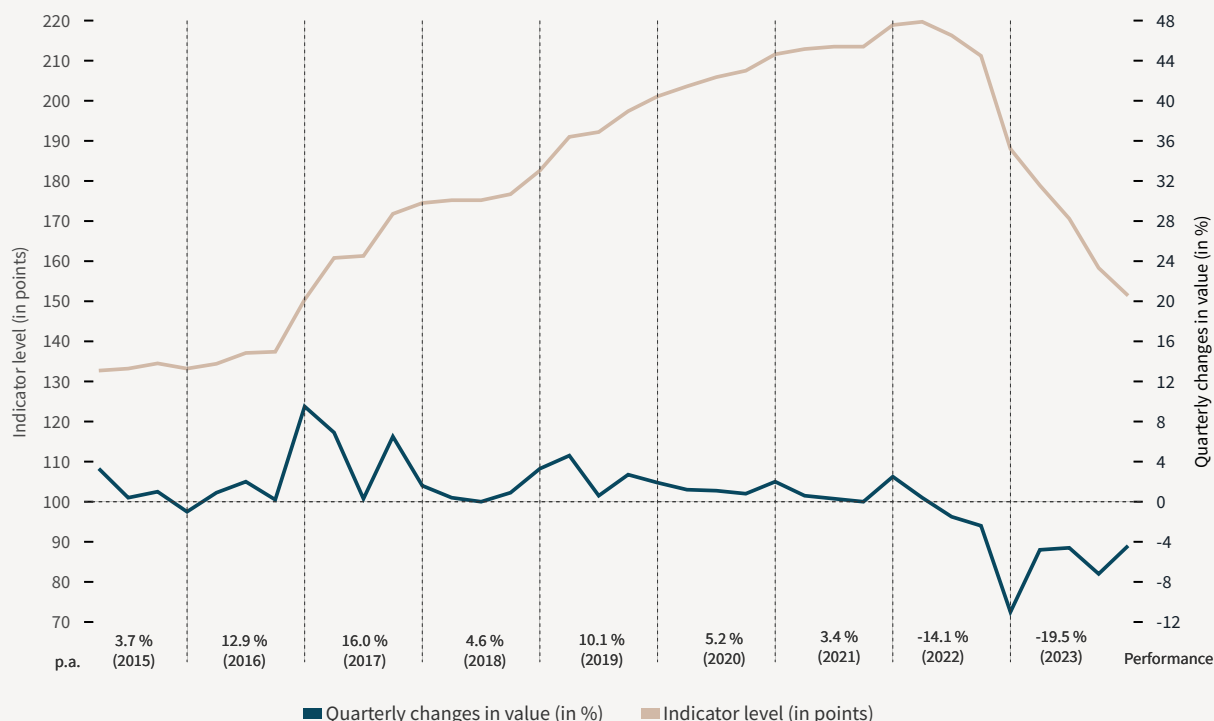




# Frankfurt

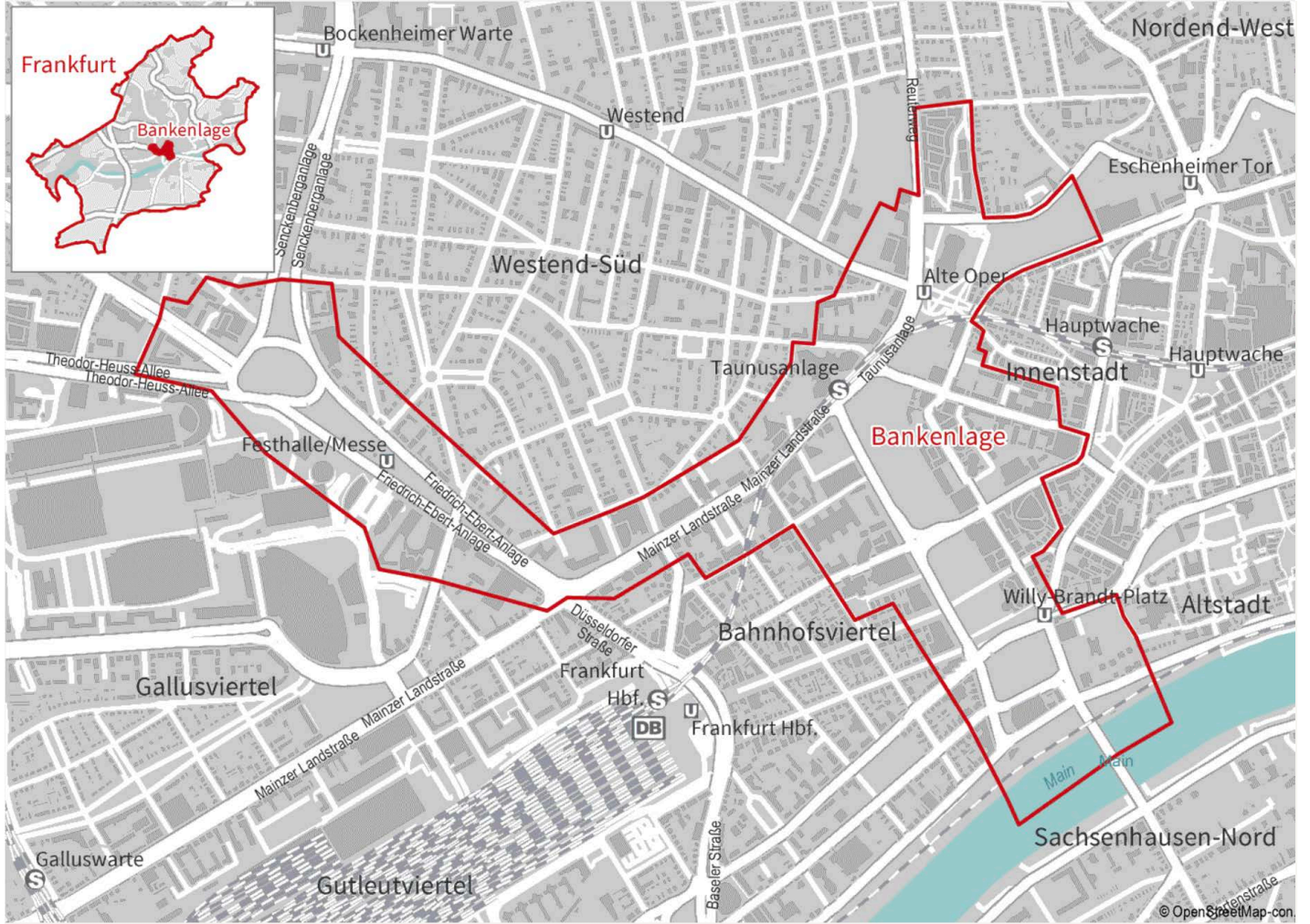
Q4 2023

## Valuation Performance Indicator



In the fourth quarter of 2023, the decline in performance in Frankfurt was the sharpest among the top 5 at **-4.4%**. The 20 basis point increase in prime yields was fully reflected in the Main metropolis, as there was hardly any countermovement from the rental market. Prime rents stagnated and there was hardly any movement away from the top end either. In terms of annual performance, Frankfurt's banking sector is in the midfield of the property strongholds under review at **-19.5%**. The new indicator score is **151.4 points**. This means that the city on the Main has lost five years of value growth and is now at the level it was at before the first quarter of 2017. The gap to Dusseldorf, which has the lowest absolute indicator level, has been reduced to a minimum. As in the other cities, the total return is negative at **-16.1%**.

Indicator peak (Q1 2022)	219.7
Indicator low point (Q4 2004)	91.8
Change since trend reversal (Q2 2009)	58.0%
Change since peak (Q2 2007)	15.9%
Change since low point	64.9%

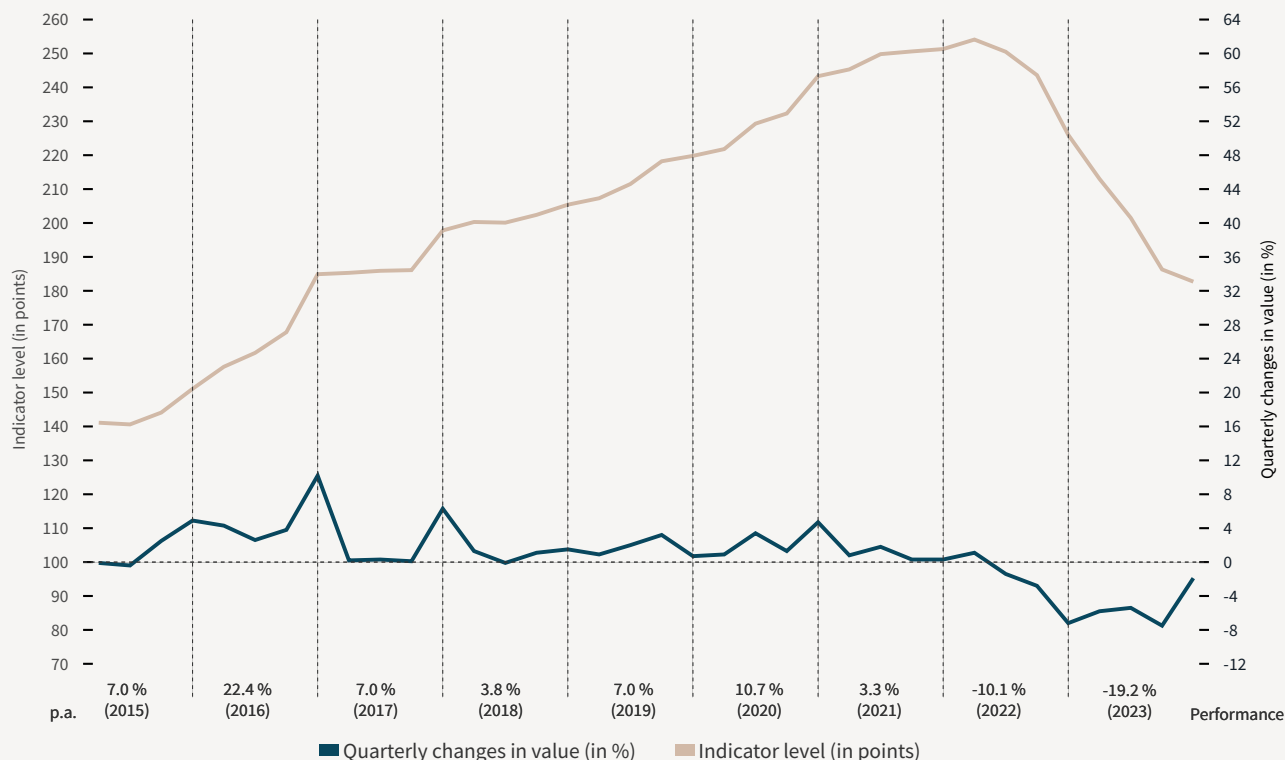




# Hamburg

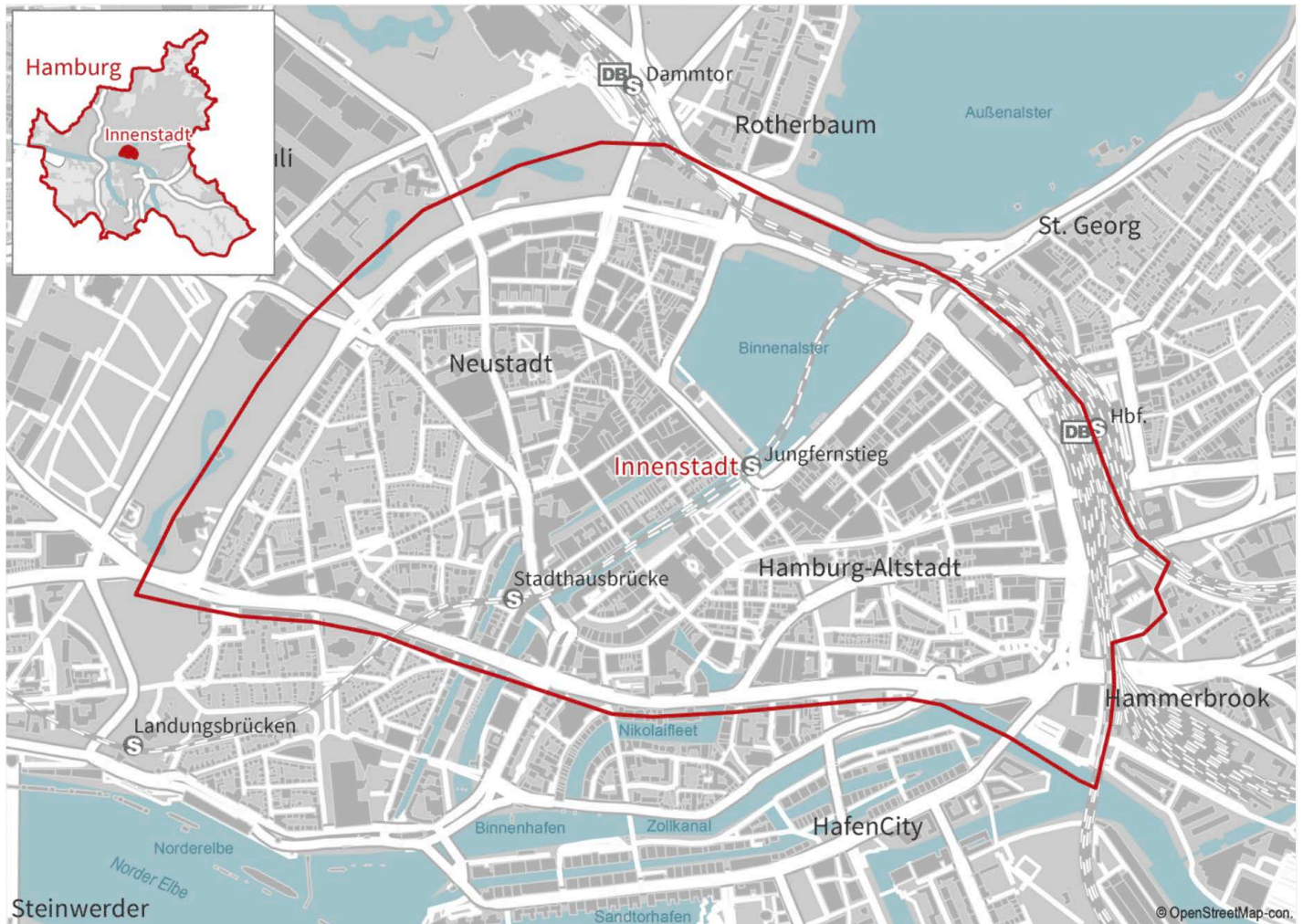
Q4 2023

## Valuation Performance Indicator



Hamburg city centre recorded a performance decline of **-1.9%** in the fourth quarter, reaching a level of **182.7 points**. It thus achieved the highest indicator level of the cities analysed and displaced Berlin's leading prime location from first place in the first half of the year. As in the other locations, the decline is due to the change in prime yields, although this was relatively moderate with an increase of 10 basis points. With rents stagnating in the final quarter, the rental market did not provide any counter stimulus. The cumulative increase in yields over the year as a whole was also the lowest of the Big 5 at 90 basis points, but rents also rose only slightly compared to the previous year. This resulted in a negative annual performance of **-19.2%** and a total return of **-15.9%**.

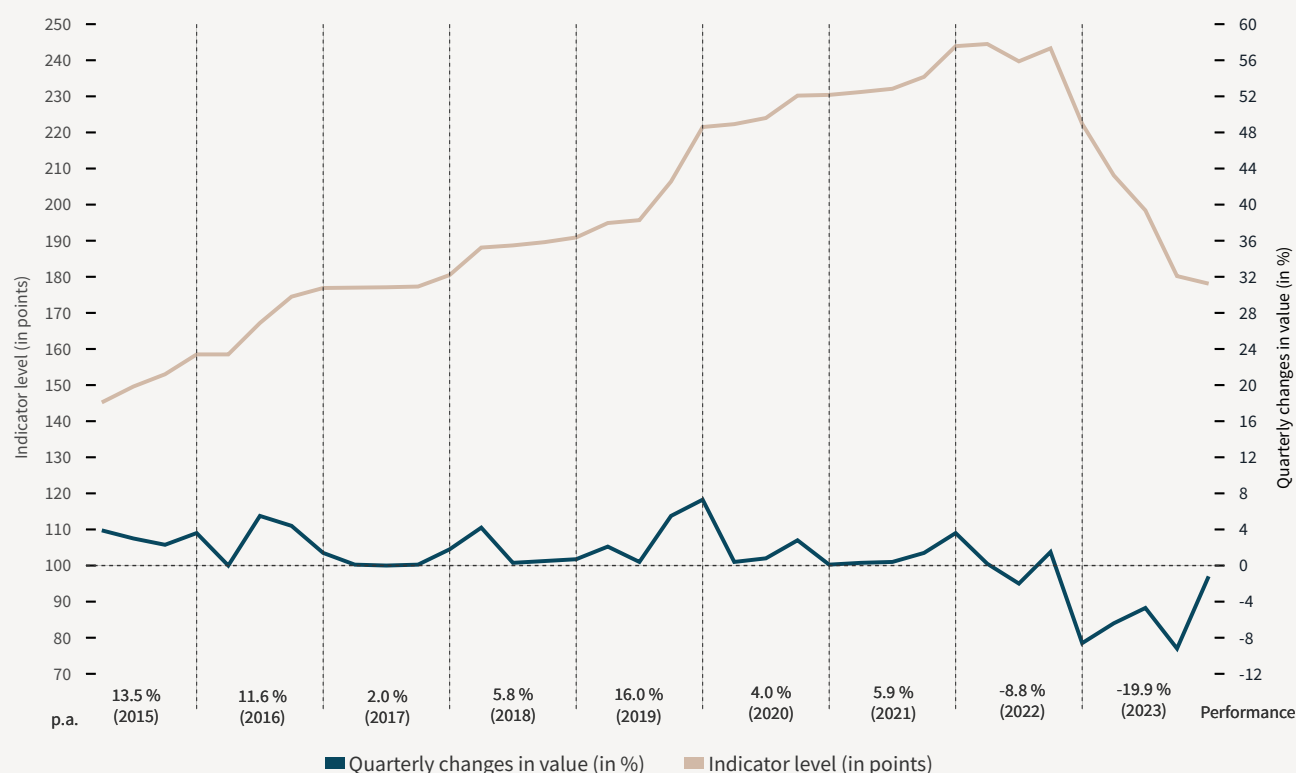
Indicator peak (Q1 2022)	254.1
Indicator low point (Q4 2004)	93.7
Change since trend reversal (Q3 2009)	77.7%
Change since peak (Q2 2007)	49.4%
Change since low point	95.0%



# Munich

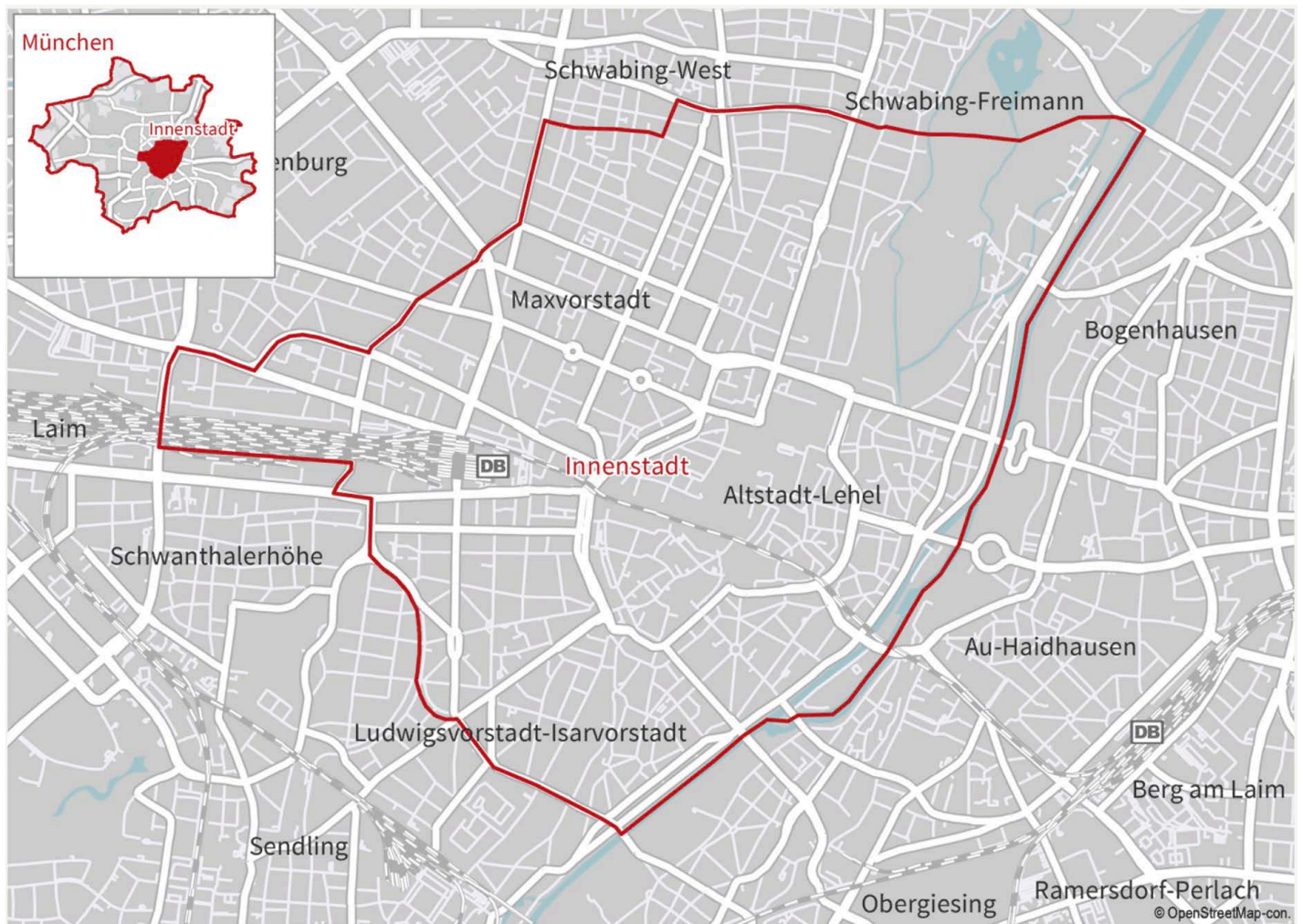
Q4 2023

## Valuation Performance Indicator



After the city centre of Munich recorded the lowest loss in value among the property strongholds under review in 2022, the Bavarian metropolis recorded the second-highest decline in annual performance after Berlin in 2023 at **19.9%**. This is due to the above-average falls in value in the first three quarters (Q1 2023: -6.4%; Q2 2023: -4.7%; Q3 2023: -9.2%). In the fourth quarter, however, Munich took the lead among the five cities with **-1.2%**. The new indicator level stands at **178.1 points**. Despite the overall slowdown in letting activity, the focus on modern, high-quality prime space in central locations (but somewhat smaller) led to significant increases in prime rents in Munich, while market rents fell slightly compared to the previous year. However, the positive impetus from the rental markets was unable to compensate for the cumulative increase in yields of 95 basis points over the year. Due to the weak performance in the first three quarters, the total return is also below average at **-16.7%**.

Indicator peak (Q1 2022)	244.5
Indicator low point (Q4 2004)	98.8
Change since trend reversal (Q2 2009)	73.8%
Change since peak (Q2 2007)	42.3%
Change since low point	80.3%

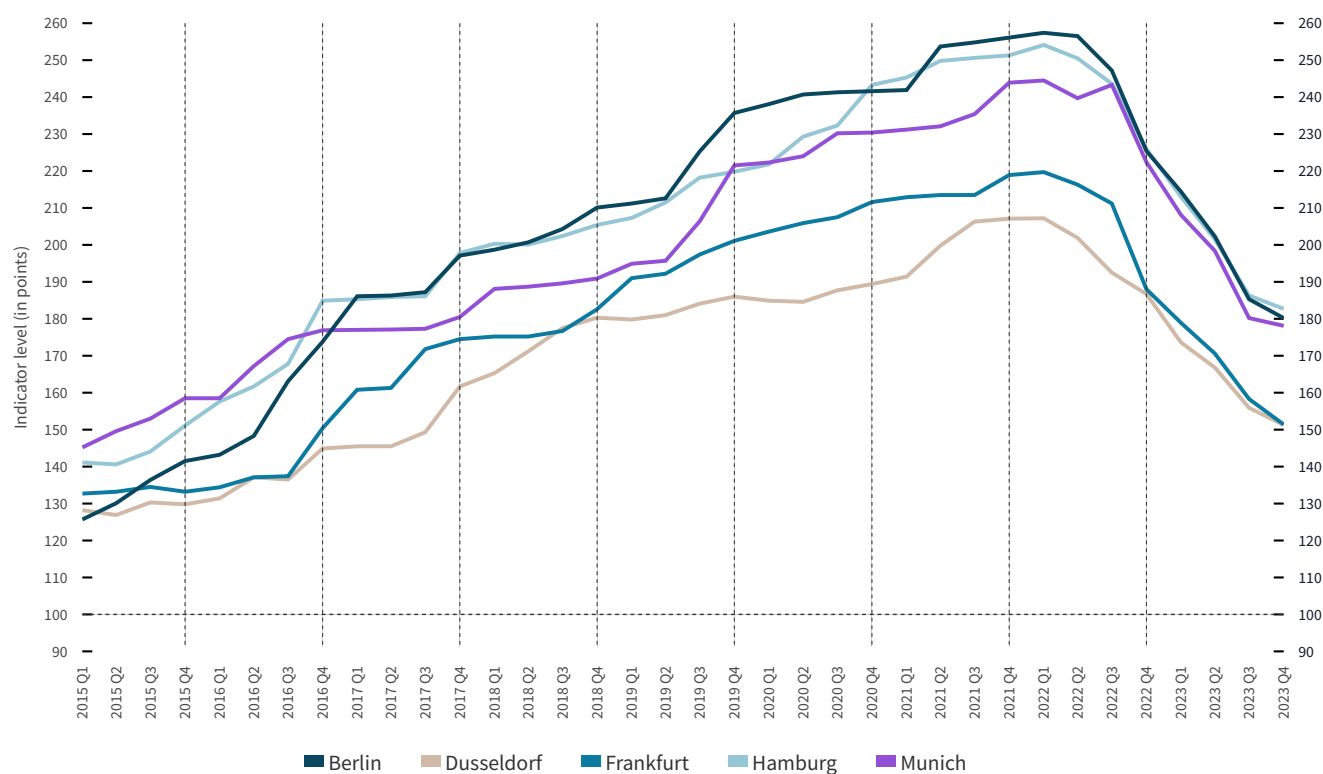




## Market Comparison

Q1 2015 to Q4 2023

### Valuation Performance Indicator



### Comprehensive performance analysis

Submarket	VICTOR Prime Office	Berlin	Dusseldorf	Frankfurt	Hamburg	Munich
Indicator peak	234.2	257.4	207.2	219.7	254.1	244.5
Indicator level 31. December 2023	166.6	180.2	151.3	151.4	182.7	178.1
Change since trend reversal (Q2 2009)	68.5%	89.1%	52.7%	58.0%	77.7%	73.8%
Change since Q2 2007	35.3%	65.6%	22.6%	15.9%	49.4%	42.3%
Change since 31. December 2022	-19.6%	-20.1%	-19.0%	-19.5%	-19.2%	-19.9%
Change on previous quarter	-2.7%	-2.8%	-3.0%	-4.4%	-1.9%	-1.2%

- Prime yields continue to rise in all property strongholds analysed
- Performance decline slows down
- Slump in transaction volume in the top 5 by around 80 per cent compared to the previous year
- Letting markets weaken at the end of the year
- Focus on space with very good fit-out quality in prime locations
- ESG compliance continues to gain importance
- Munich with strongest annual growth in rents

Prime Location	Cash Flow Rendite (NIY) Q4 2022 - Q4 2023	Capital Growth (YoY)	Total Return Q4 2023
Berlin	3.2%	-20.1%	-16.9%
Dusseldorf	3.4%	-19.0%	-15.6%
Frankfurt	3.4%	-19.5%	-16.1%
Hamburg	3.3%	-19.2%	-15.9%
Munich	3.2%	-19.9%	-16.7%
Prime Office	3.3%	-19.6%	-16.3%



## VICTOR – Valuation performance indicator

### Concept

Property markets exhibit cyclical fluctuations from which even the prime German prime office locations are not immune. The volatility of price performance emphasizes all the more how important a transparent market indicator is. In this context, JLL analyses the price development in the prime office locations of the cities of Berlin, Dusseldorf, Frankfurt, Hamburg and Munich. Holders of real estate portfolios and potential investors should be given the opportunity to obtain greater transparency for clearly defined submarkets and identify developments and trends more quickly so they can act accordingly. The indicator analyses the following submarkets, which have a total area of approximately 12 million sqm:

- Berlin – Charlottenburg / Mitte / Potsdamer Platz und Leipziger Platz
- Dusseldorf – Banking district
- Frankfurt – Banking district
- Hamburg – City centre
- Munich – City centre

In these submarkets, the price development of the lettable office space stock is analysed. The analysis identifies the changes in value of the office space stock and reflects the performance (capital growth) over time. In the overall analysis (VICTOR Top-5), the price development of the abovementioned prime office markets was averaged (unweighted). As a result of the differing amount of existing office space and the differing value levels in the individual submarkets, these values were considered with a 20% weighting in the Top-5 Indicator.

Since 31 December 2003, the indicator has been calculated on a quarterly basis and will continue to be updated on a quarterly basis in the future. The short observation intervals provide an adequate picture of short-term market fluctuations and a realistic portrayal of current market trends. In this regard, the Valuation Performance Indicator VICTOR is a valuable benchmarking tool and a trend barometer for the analysed submarkets.

### Methodology

The market valuation of the submarkets, based on the effective date, is carried out according to international valuation standards and is based on the JLL database. The assumptions in the model relate to real market data as well as the assessment of JLL professionals. In the model, we refer to an assumed fixed space inventory in the submarkets, actual vacancy rates as of the effective date and different quality proportions. This ensures a realistic picture of the letting situation and temporal comparability of the indicator values. The calculation is based on a discounted cash flow model, which takes into account all valuation parameters relevant to market standard.

Inflation expectations, as well as the market rental growth anticipated by JLL, are explicitly considered in the analysis. The growth of the contractual rents was adjusted on the basis of market standard, assumed indexation regulation and the real inflation rate. The market rents of the prime office locations are analysed by JLL on a quarterly basis and incorporated into the model. The contractual rents are determined over a historic time series, so that a statement about the respective over / underrent status can be made. In addition, explicit ongoing building costs, letting costs and rental incentives as well as estimated void and reletting periods are considered in the cash flow.

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