

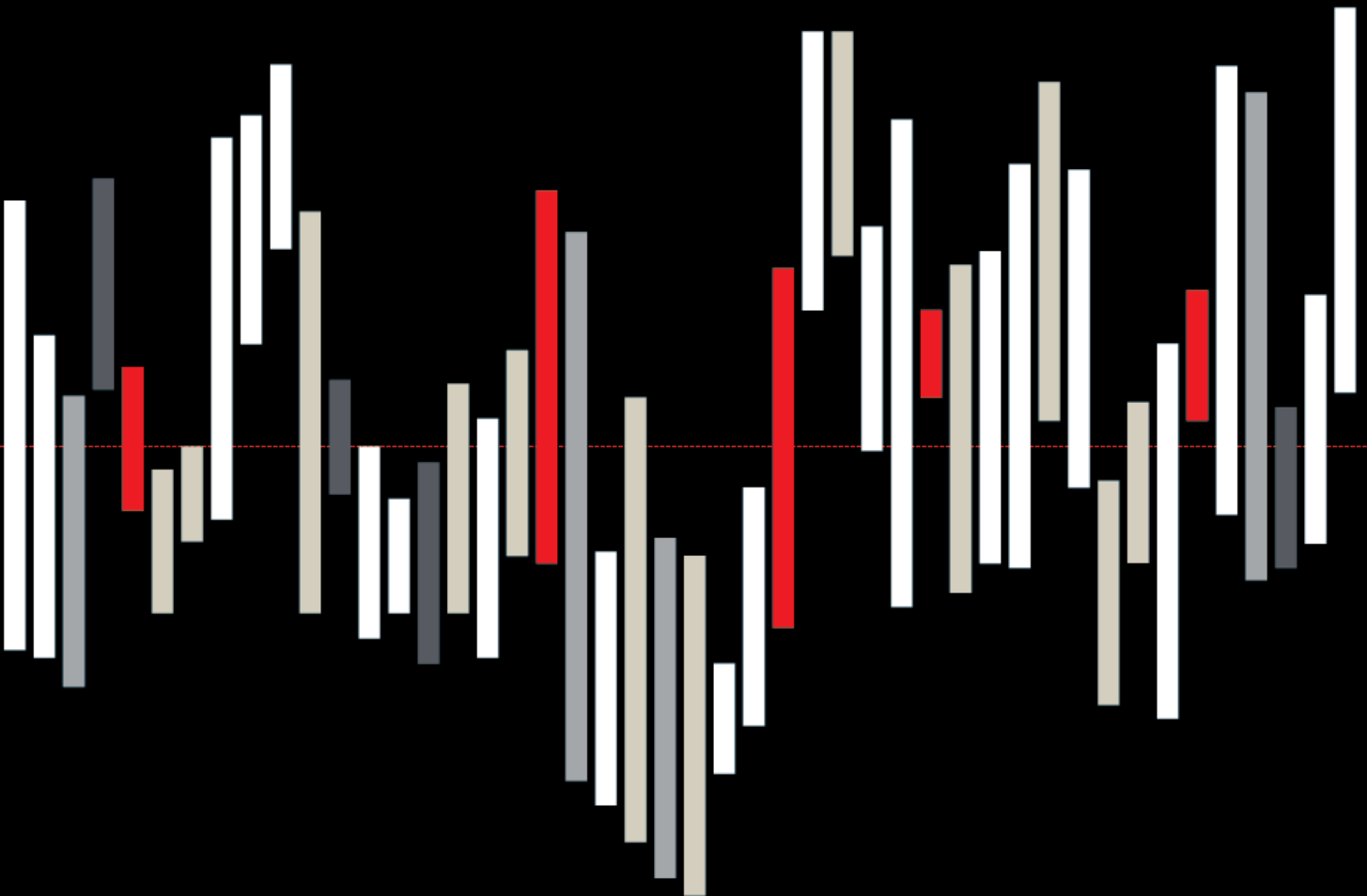
Research

# Investment Market Overview

Q3 2023

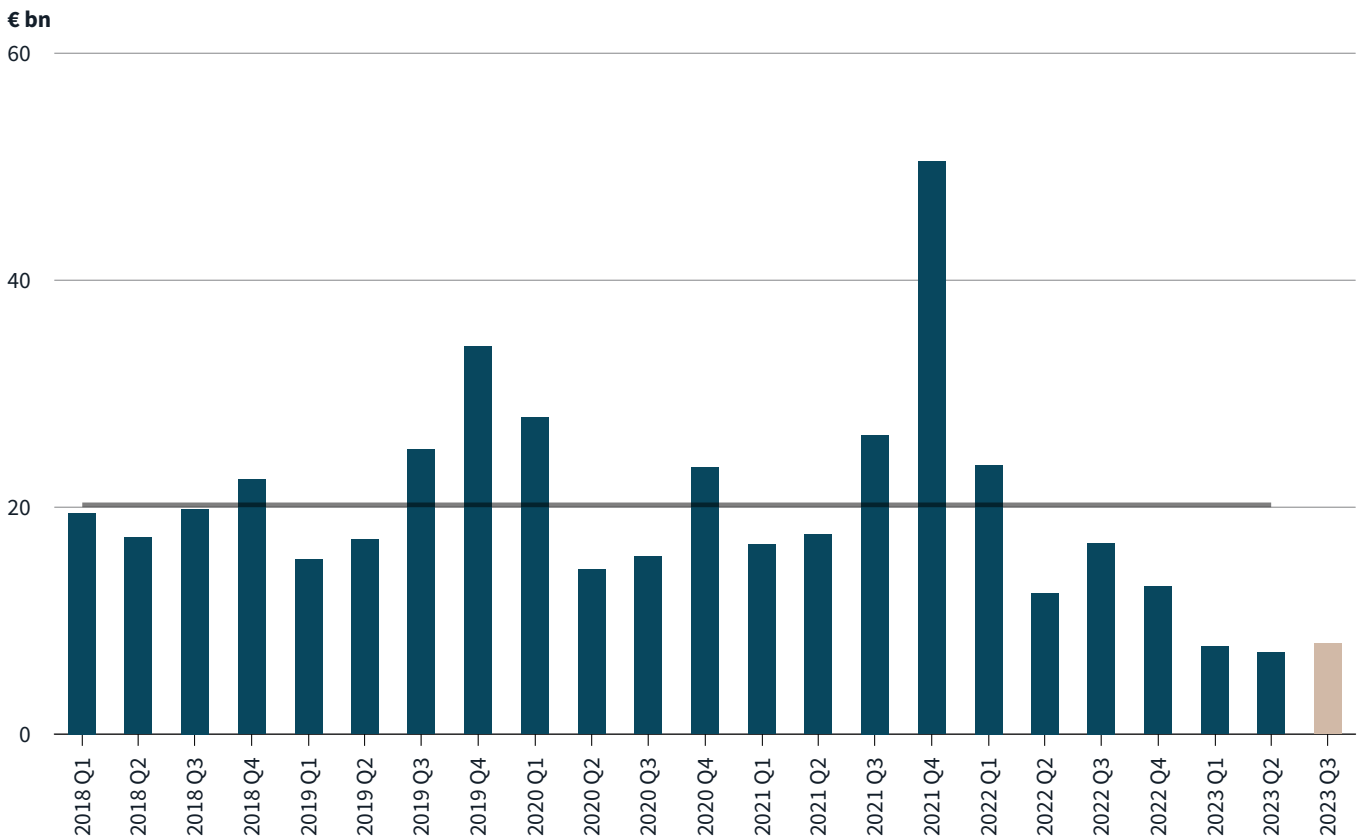
## Investment market recovery postponed until 2024

Transaction volume at the end of the third quarter reaches just €23 billion



There has been little change in the generally gloomy picture of the German real estate investment market over the course of the summer. While most investor groups are delaying acquisitions because the price correction process is still underway, investors' willingness to sell remains sluggish, so there are few opportunities available to purchasers. By the end of September, the statistics show a transaction volume of around €23 billion, 57 per cent lower compared to the same period last year. With the exception of the sale of a supermarket portfolio for around €1 billion in the past three months, the market is being fed by smaller transactions up to a maximum of €70 million.

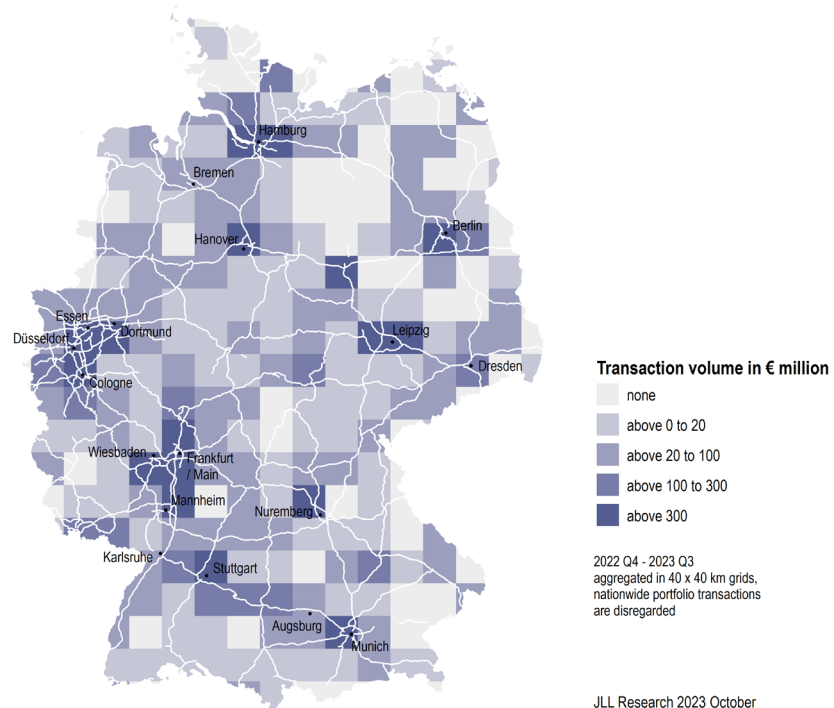
## Transaction Volume Germany



Status: October 2023; Source: JLL

The fastest rise in interest rates in German economic history has set in motion a negative spiral that no amount of successful property management can escape, a situation that is slowing down the market and unsettling its players. Little improvement is expected in the short term because the excessively high land prices and financing costs, together with a scarcity of potential purchasers that could facilitate a profitable exit, make new development projects almost impossible. This is increasing pressure in the market, causing many market players to sit back and wait (where they can afford to), which in turn is blocking other opportunities. However, the market will regain momentum once this blockade is cleared.

## Investment Volume Germany



## No interest rate cut by the European Central Bank in sight at the moment

The European Central Bank (ECB) raised the key interest rate again by 25 basis points in September. This resulted in a relatively strong rise in swap rates and government bond yields and suggests that the ECB's latest interest rate move was not yet priced in. While this makes financing even more difficult because it is not yet possible to achieve a positive leverage effect, interest rates on alternative investments are continuing to rise, because the drop in inflation is making long-term government bonds more attractive again in terms of real interest rates. There are really only two ways for momentum to return to the market: either interest rates fall, or property yields rise. While the ECB now seems intent to hold interest rates, there are no plans to cut interest rates at the moment. Therefore, the only option is for property yields to rise, at least until some positive leverage can be realised again.

A recent study by the International Monetary Fund (IMF) has calculated that markets that react strategically and correctly to exceptional inflationary situations take approximately 3.9 years to regain their balance. Therefore, it will take some time until everything has rebalanced and can be considered stable. This does not mean that the market must wait until the balance is regained, because there is much to suggest that interest rates have reached their peak and no further drastic markdowns are expected. While it may be too early for optimism, confidence is appropriate. This is because, although the current situation is unlikely to change much in the short term, the pressure to sell will also increase as time goes on, especially when refinancing is pending. A large refinancing gap is continuing to build up and will encourage greater activity in the market,

albeit at different price levels. In a cyclical market, there are always players who wish to sit out the trough; however, this can only succeed today with substantial equity and low capital costs. Nonetheless, depending on how contracts are structured, banks will discuss options with their creditors before resorting to a so-called distressed sale. One solution could be the entry of private debt and equity funds, and we expect such participations to increase.

**€23 bn**

**volume of transactions  
in Q1-3 2023**

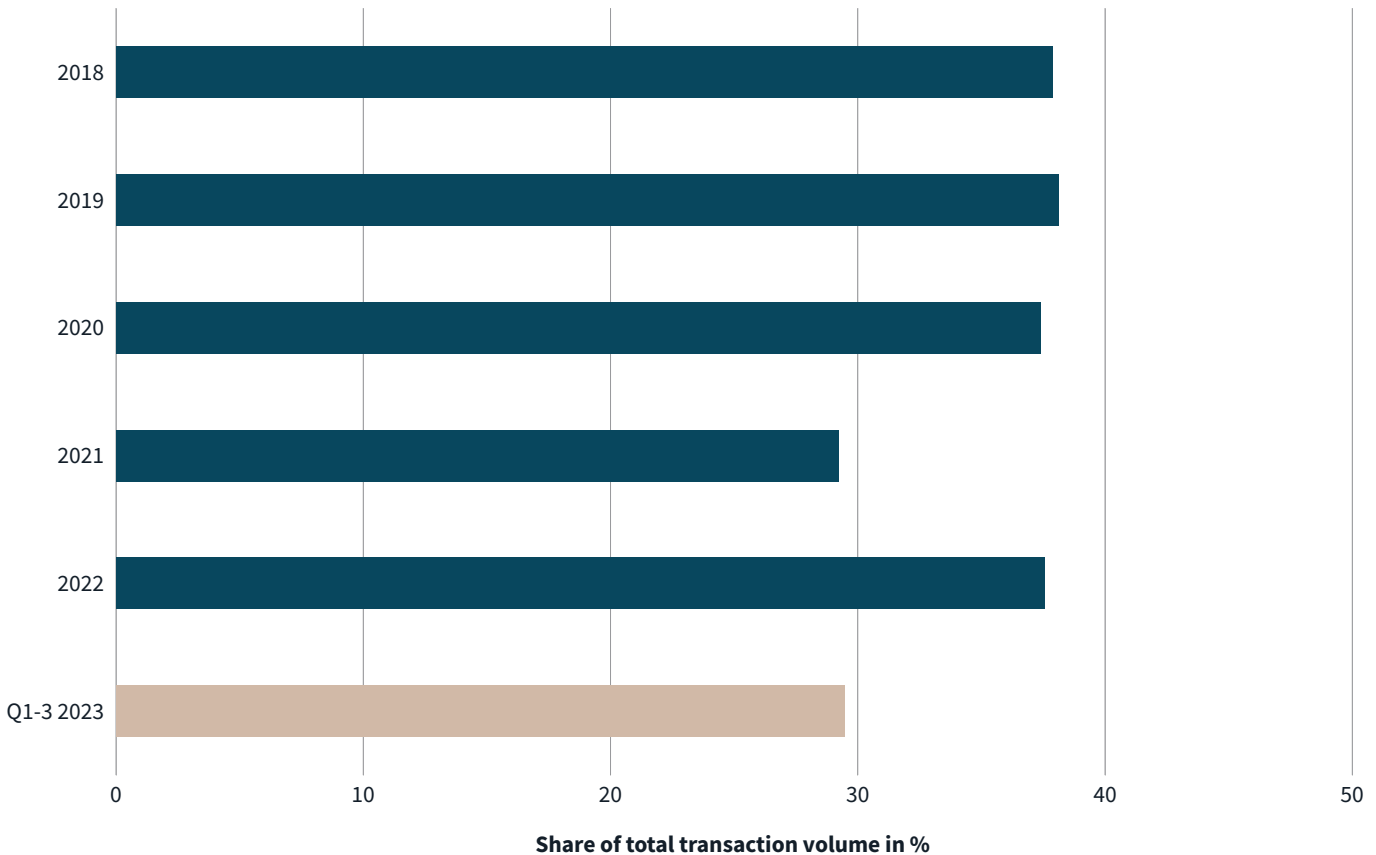
**-57 %**

**compared to Q1-3 2022**

JLL is currently forecasting a transaction volume of between €30 billion and €35 billion for the full year. This implies that the market will pick up in the final three months of the year with the transaction volume returning to 2011/12 levels, over 50 per cent below the 10-year average.

In terms of transaction structures, very little has changed since the first half of the year. The so-called sweet spot for individual transactions, where equity is predominantly invested, is a maximum of €70 million. Portfolios accounted for around €8.5 billion at the nine-month mark, including the sale of the supermarket and convenience store portfolio by x+bricks to Slate Asset Management for €1 billion in the third quarter. This cumulative result for 2023 is approximately one third of the portfolio sales counted in the same period last year. The paralysis of the market becomes even clearer when comparing the higher-volume transactions over €100 million. While there were more than 100 such deals in the statistics last year, there are currently fewer than 30. Before the crisis, the German market recorded the highest increases in prices. It is now observing a much greater decline in prices than in other markets and there is, correspondingly, great considerable reluctance to sell at a discount.

## Purchases of foreign investors



Status: October 2023; Source: JLL

## Office share continues to fall - significant decline in transactions in the Big 7

A look at the various real estate segments shows the current massive shift in investors' investment preferences. It is no surprise that Living leads the way with €6.6 billion, or 29 per cent. Logistics and Retail follow with 21 per cent and 20 per cent, respectively. Office continues to be the problem child - nowhere else does the crisis manifest itself as it does here, with just 18 per cent of the volume (€4.1 billion) still accounted for by this use type. Alongside the economic component with falling take-up figures, discussions are now centring on fundamental structural changes in relation to the role of the office in a changing working world, challenges to energy efficiency, sustainability and regulatory requirements. Many companies do not yet have a clear strategy on how to attract employees back into the office and what role they will play in future work concepts.

# Number of portfolios

Volume each  $\geq$  €100 mn

46

Q1-3  
2022

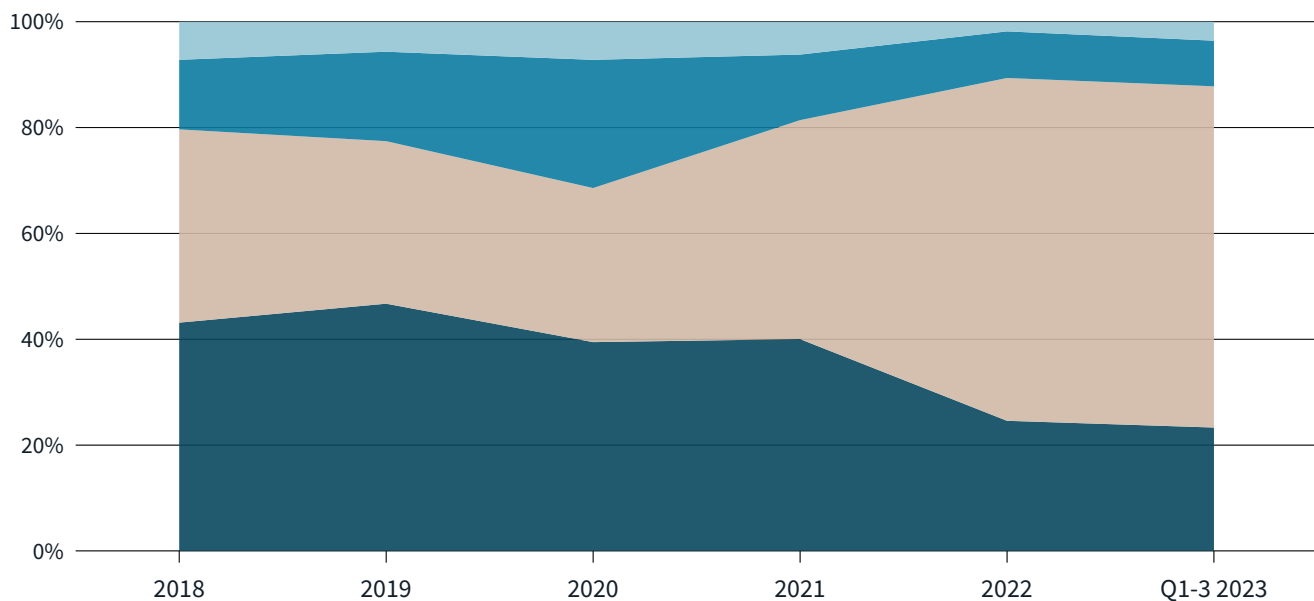
15

Q1-3  
2023



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## Transaction Volume by Risk Profile of the Investments Germany



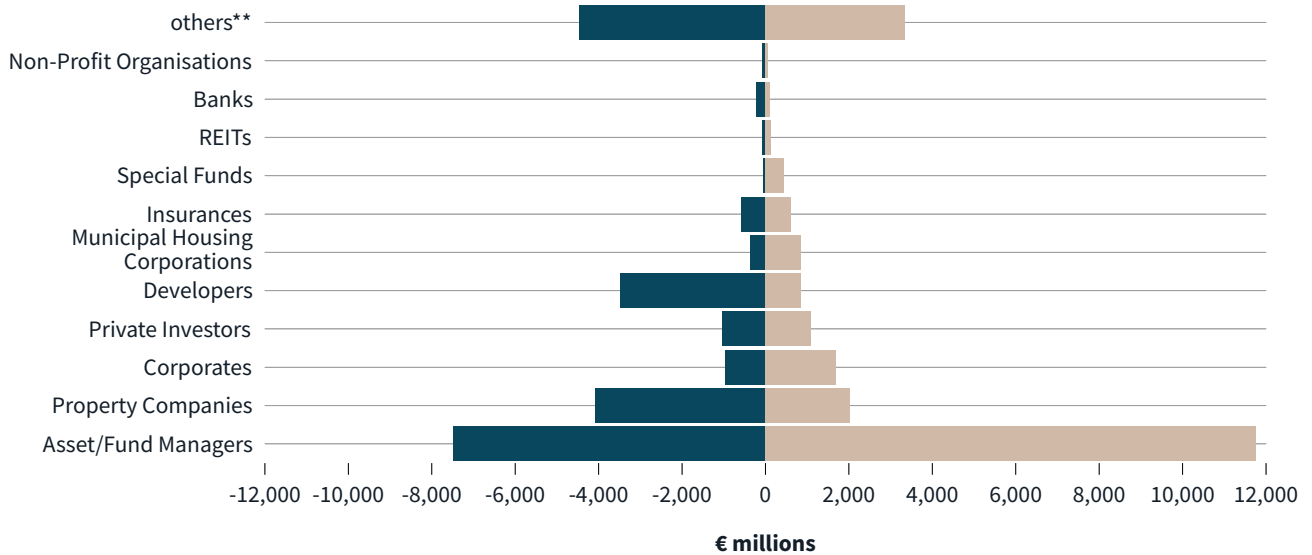
Core Core plus Value Add Opportunistic

Status: October 2023; Source: JLL



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## Transaction Volume by Vendor and Purchaser Type Germany\* / Top-11 Players



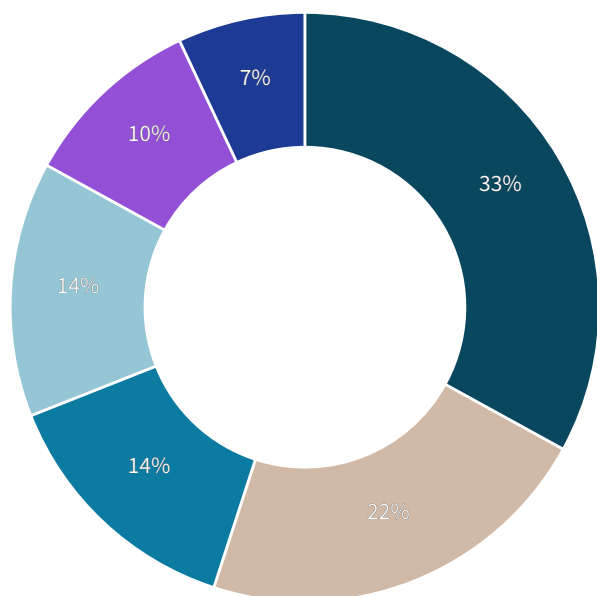
■ Vendor ■ Purchaser

\*Period: 2023 Q1 - 2023 Q3  
Status: October 2023; Source: JLL

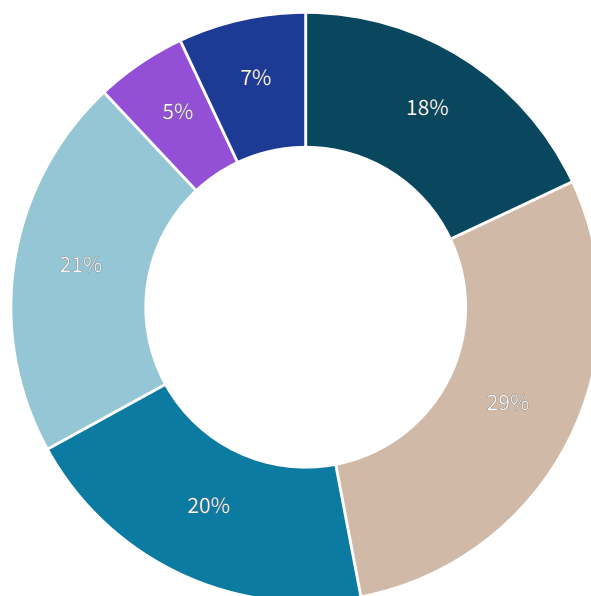
Older and outdated offices in particular are increasingly viewed critically and putting additional pressure on their owners. New construction was yesterday, existing buildings are tomorrow - this sums up the importance of dealing with the current office stock in the portfolio. Topics such as changes of use, for example converting offices into residential space, will also play an increasing role. This is another reason why the German government's recent indication of their wish to encourage such use conversions with funding of €480 million can be judged positively.

## Transaction Volume by Main Asset Class Germany

2022: € 66 bn



Q1-3 2023: € 22.9 bn



Office Living Retail Industrial & Logistics Mixed Use others\*

\* Hotels, Sites, Special Properties  
Status: October 2023; Source: JLL



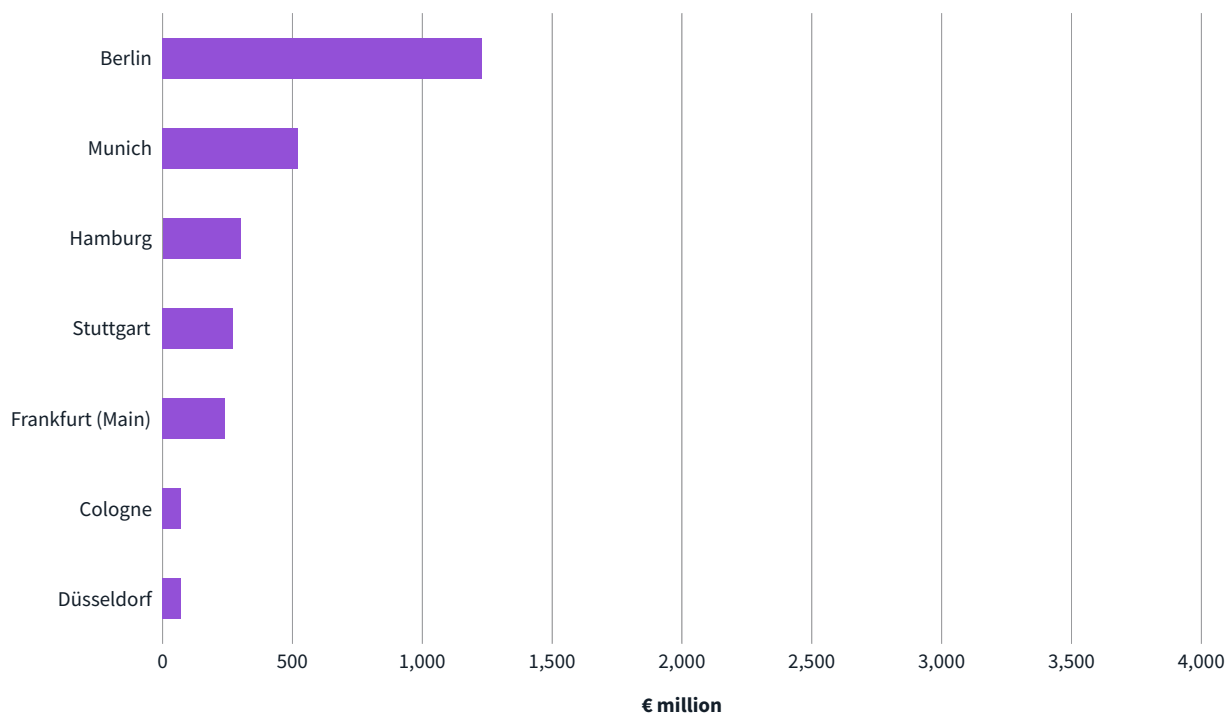


The situation in the other real estate segments must be viewed from a variety of perspectives. Retail had already experienced its adjustments at the beginning of the pandemic and is therefore less affected by the current markdowns and is relatively stable. Logistics benefited from the pandemic but is vulnerable to cyclicalities and therefore needs to demonstrate a clear strategy of which properties are needed where and when in order to form secure and essential supply chains.

The underlying investor scepticism for office properties is also reflected in the transaction activity in the Big 7 markets. This totalled €9.8 billion at the end of the third quarter, 63 per cent below the previous year's level. The decline ranges from 28 per cent in Cologne to almost 80 per cent in Frankfurt and Hamburg. Only Stuttgart is "in the black". At €960 million, the transaction volume in the capital of Baden-Württemberg was just as high as a year ago.

## Transaction volume Q1-3 2023

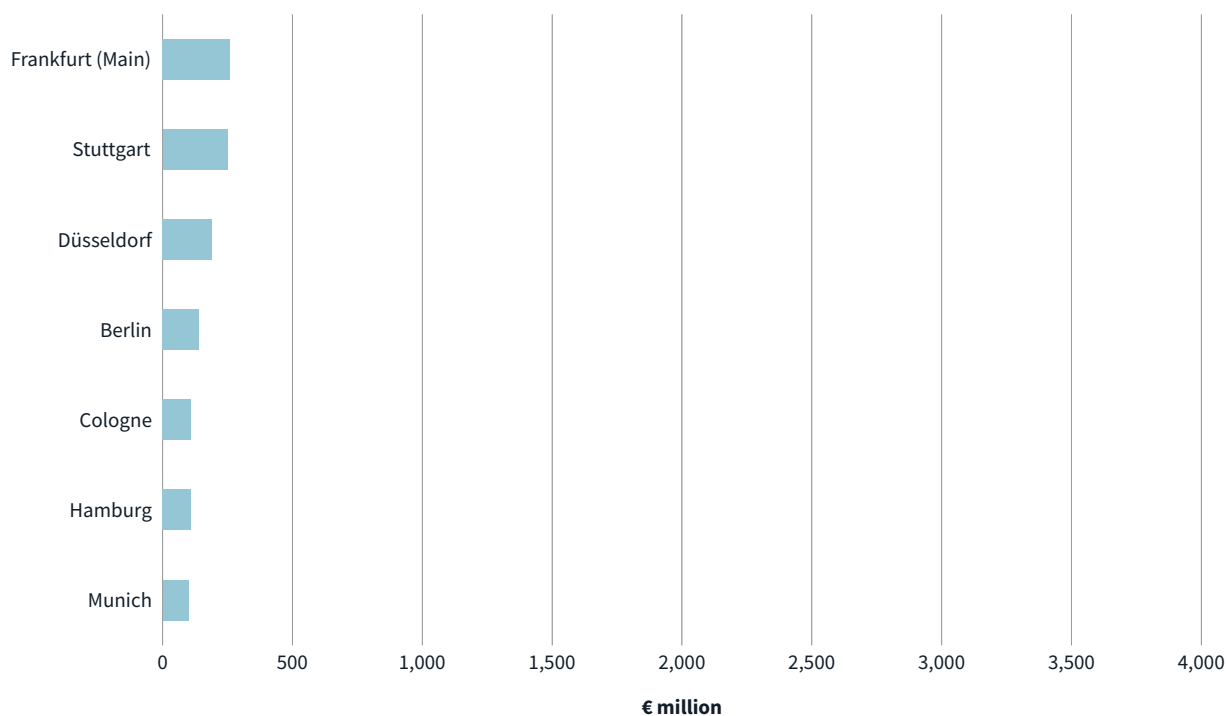
Living Logistics-Industrial Office Retail Total



Status: October 2023; Source: JLL

## Transaction volume Q1-3 2023

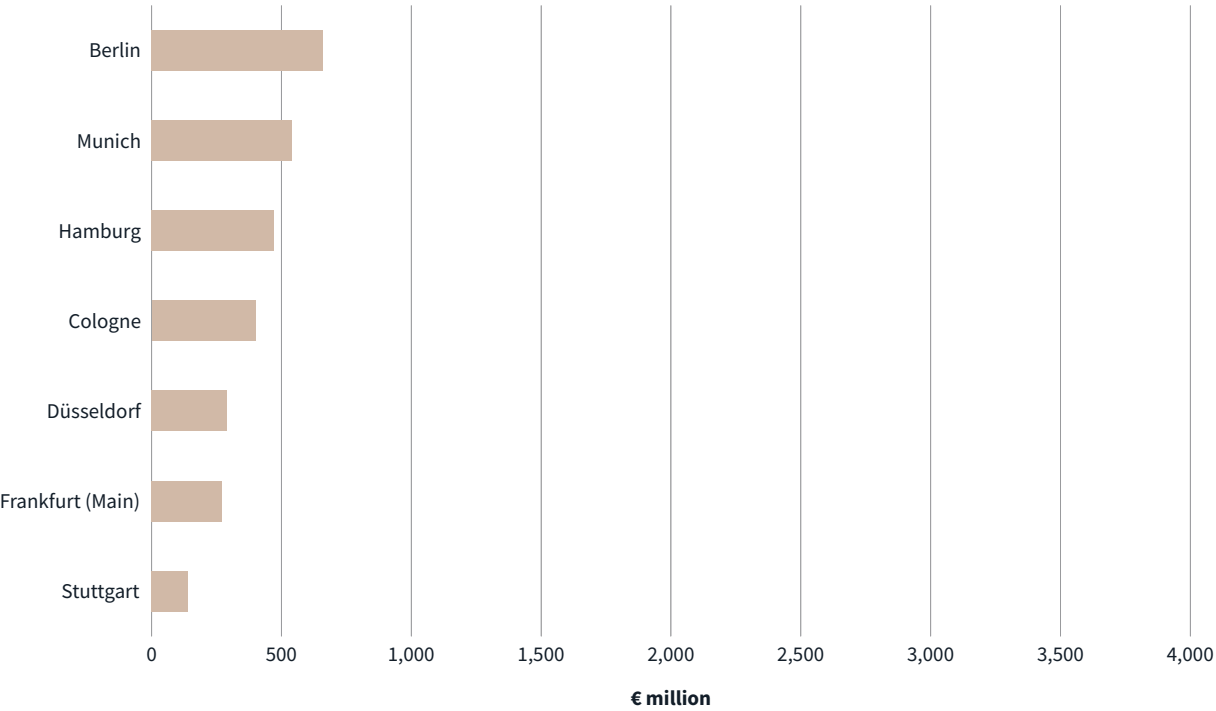
Living Logistics-Industrial Office Retail Total



Status: October 2023; Source: JLL

Transaction volume Q1-3 2023

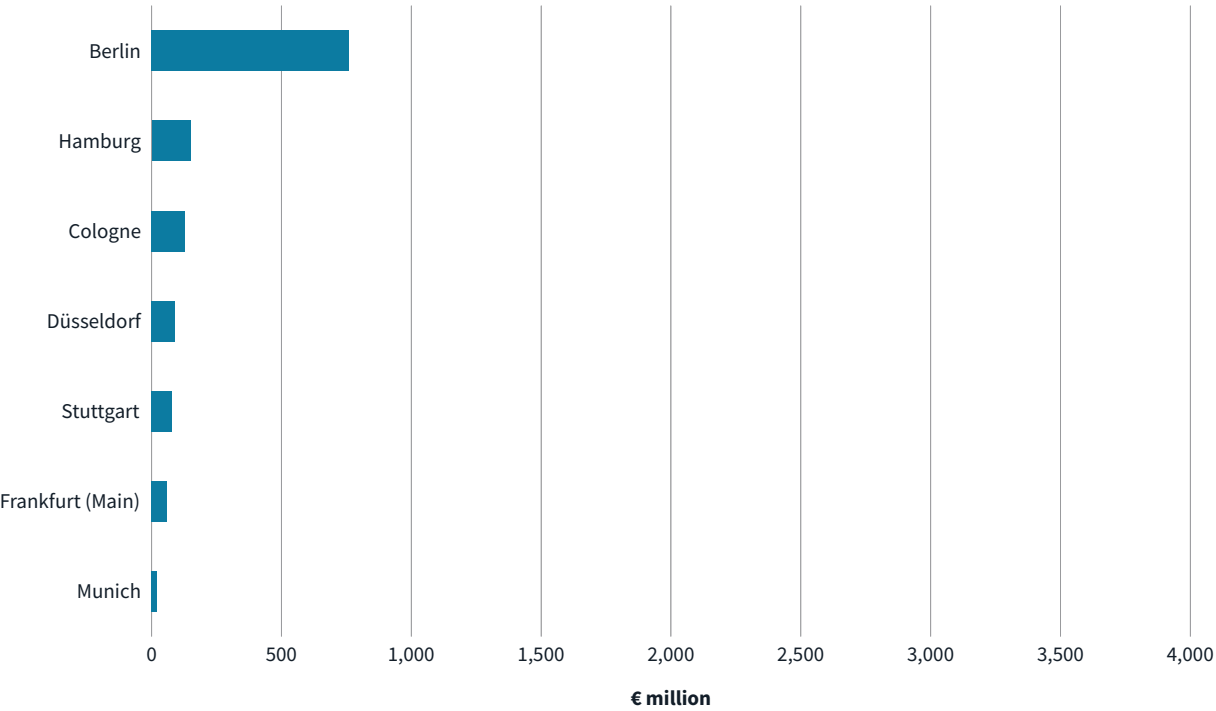
Living	Logistics-Industrial	Office	Retail	Total
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Status: October 2023; Source: JLL

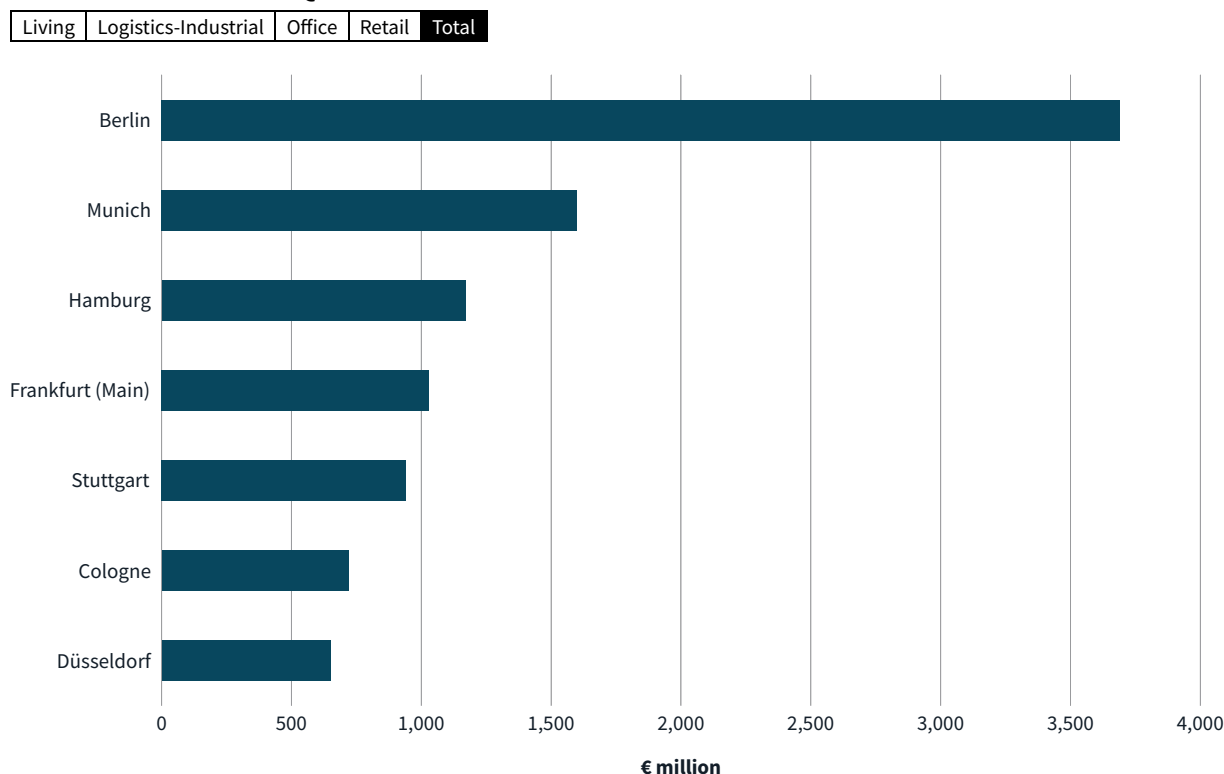
Transaction volume Q1-3 2023

Living	Logistics-Industrial	Office	Retail	Total
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Status: October 2023; Source: JLL

## Transaction volume Q1-3 2023



Status: October 2023; Source: JLL

## More clarity about interest rates - yields continue to rise

There now seems to be a little more clarity in terms of interest rates. As soon as the aftermath of the ECB's last rate hike is digested, we will see a degree of stabilisation with a new price structure for real estate emerging as a result. It is clear that yields still have a long way to go to make attractive entry options possible again. JLL currently expects the prime yield for office properties to average 4.12 per cent across the Big 7 markets. By the end of this year, a further step to around 4.4 per cent is anticipated. Yields would then have increased by 175 basis points since their low point in the first quarter of 2022. If financing conditions also stabilise at the current level, the gap would be almost completely closed. The spread, i.e. the risk premium, to 10-year government bonds is expected to widen again to 200 basis points by the end of the year, its highest value since the first quarter of 2022. As prime rents are continuing to rise at the same time, stable cash flows will be created and there will be a buffer against possible losses in value.



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Office prime yields (in %)	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Berlin	2,70	3,20	3,45	3,70	4,05
Düsseldorf	2,95	3,35	3,60	3,90	4,25
Frankfurt (Main)	2,85	3,40	3,65	3,90	4,25
Hamburg	2,80	3,25	3,50	3,75	4,05
Cologne	2,85	3,35	3,55	3,90	4,25
Munich	2,75	3,20	3,45	3,70	4,05
Stuttgart	2,95	3,40	3,50	3,60	3,95

Status: October 2023; Source: JLL



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Prime yields (aggregated net initial yield in Big 7 in %)	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Office	2,84	3,31	3,53	3,78	4,12
Retail: Shopping center	4,85	5,00	5,00	5,00	5,25
Retail: Warehousing parks	3,65	3,90	4,15	4,40	4,60
Retail: Warehousing solus units	4,70	4,90	5,10	5,50	5,85
Retail: High street	2,91	3,21	3,39	3,49	3,49
Residential: Multifamily	2,69	2,98	3,14	3,38	3,56
Logistics-Industrial	3,43	3,93	3,93	4,03	4,15

Status: October 2023; Source: JLL



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Transaction volume Germany	Q1-3 2022 (€ m)	Q1-3 2023 (€ m)	year-on-year (in %)
Single assets	31.100	14.400	-54
Portfolios	21.900	8.500	-61
<b>Total</b>	<b>53.000</b>	<b>22.900</b>	<b>-57</b>

Status: October 2023; Source: JLL



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Transaction volume Big 7 cities	Q1-3 2022 (€ m)	Q1-3 2023 (€ m)	year-on-year (in %)
Berlin	8.840	3.690	-58
Düsseldorf	2.340	650	-72
Frankfurt (Main)	4.770	1.030	-78
Hamburg	5.520	1.170	-79
Cologne	990	720	-27
Munich	3.260	1.600	-51
Stuttgart	960	940	-2
<b>Total</b>	<b>26.680</b>	<b>9.800</b>	<b>-63</b>

Status: October 2023; Source: JLL

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With the exception of high street retail property, yields have continued to rise for the other real estate use types. In the third quarter, the strongest gains were recorded for retail warehouses and shopping centres, which rose by 35 and 25 basis points to 5.85 and 5.25 per cent, respectively. The rise in yields also continued at a moderate pace in the case of logistics and residential real estate (multi-family dwellings).

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