“As was to be expected, the volume of transactions fell appreciably in the 2nd quarter due to the Corona pandemic. But we believe the market will recover in the 2nd half of the year because more properties are now being offered and investors have to decide where to place the funds they have collected.”

Holger Michaelis | Managing Director

Transaction volume

Market heavily influenced by Aroundtown’s purchase of shares in TLG

In the 1st half of 2020 the Berlin investment market dropped by 28% against the record posted the year before. Despite that, the result of €3.46bn represented the second-highest volume of property trading ever seen in the national capital during the space of six months. Above all, this record figure is attributable to Aroundtown’s purchase of some 80% of the shares in TLG, for which the company paid around €1.6bn. If this one transaction is discounted, the total trading volume was €1.86bn, a figure last recorded in 2016. Turnover in the 2nd quarter was a mere €860m; a 2nd-quarter total this low was last posted in 2014. Grossmann & Berger’s view is, however, that by the end of 2020 real estate trades will total at least six billion euros because many investors are urgently in search of assets for their cash and the number of properties on the market is rising again.

In conjunction with the 28% decline in the trading volume, the number of property sales in Berlin fell by 19%. Only 59 properties changed hands in the first half of 2020 compared with 73 in the same period of 2019. 23% (€792m) of the volume traded was comprised of sales at prices between €26m and €50m, around 25% (€875m) was made up of properties that sold for between €51m and €100m. Only 45% of the market (€1.5bn) involved real estate with price tags in excess of €100m, thus slipping by 69% year on year.

Among the biggest single-property transactions that Grossmann & Berger has thus far seen in the German capital was that of the Vattenfall headquarters located close to Nordbahnhof station (Chausseestrasse 23, Mitte sub-market) which Credit Suisse acquired from Barings Real Estate Advisers. The second-biggest transaction involved the “Quartier Schützenstrasse” (Zimmerstrasse 67 – 69, Mitte 1a sub-market), sold to Henderson Park by the Singapore State Fund for €194m. A third trade was also comfortably in the nine-figure bracket. The project development department of HIH sold Zalando headquarters (Edith-Kiss-Strasse 1, Friedrichshain sub-market) to HIH Real Estate GmbH Group.

Transaction volume

2016–2020/Q1–2 | in € bn

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020/Q1–2</th>
<th>10-year average</th>
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</thead>
<tbody>
<tr>
<td>2016</td>
<td>5.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2017</td>
<td>7.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2018</td>
<td>6.8</td>
<td></td>
<td></td>
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<tr>
<td>2019</td>
<td>11.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020/Q1–2</td>
<td>2.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.86</td>
</tr>
</tbody>
</table>

source: Grossmann & Berger GmbH
Investment properties

Investments observed outside central areas too

Four sub-markets returned two-figure shares of the total trading volume; these were Mitte (30%), Periphery North (13%), Mitte 1a (10%) and Friedrichshain (10%). This range of distribution was essentially due to the sale of the shareholding in TLG and the three most expensive single trades. Whereas in Mitte sub-market there were four transactions costing upwards of 100 million (including Chausseestrasse 23), only two were noted in Periphery North (“Kulturbrauerei,” “Enter”) and one each in Mitte 1a, Kreuzberg and Friedrichshain. It is apparent that current demand favours properties in the CBD and locations near the city centre if they are let longer-term to credit-worthy tenants.

As far as the various assets are concerned, three classes posted two-figure shares of the total sold. As in the past, the undisputed front-runner was office real estate, accounting for 67% (€ 2.3 bn), largely due to the high-volume trades already noted (Chausseestrasse 23, “Enter”, “Quartier Schützenstrasse”) and the sale of the TLG shareholding. Retail property assets followed in popularity with a share of 10% of the total market (€ 336 m), propelled into 2nd place by the sale of shopping centres such as “Fachmarkzentrum am Adlergestell” (TLG to Aroundtown) and “Fachmarkzentrum Gesundbrunnen” (CBRE Pan European Core Fund to a special fund managed by Hines). Mixed-use real estate also accounted for 10% of total trading. Much of this was due to the sale of the repurposed brewery complex Kulturbrauerei. Other asset classes accounted for between one and 7%.

Yields

Yields appear to have bottomed out

Compared with the same period a year ago, prime yields on commercial properties in Berlin bought and sold during the 1st half of 2020 again contracted slightly, having remained comparatively stable over the course of 2019. The prime net yield on office properties now stands at 2.70%. On logistics properties, yields softened by 40 base points to 3.80%, on commercial buildings they dropped 10 base points to 2.80%.

 Investors and vendors

International actors still active

Unlike the situation a year ago, the large majority of buyers and sellers of Berlin properties in the 1st half of 2020 were foreign players. International buyers were behind 74% of the volume purchased, spending € 2.6 bn, and behind 71% of the volume sold, a total turnover of € 2.4 bn. Here too, the difference between this and the prior year stems from the numerous big-ticket trades.

Due to Aroundtown’s takeover of shares in TLG, listed real estate investment companies (AGs) dominated the market as buyers (54%, € 1.9 bn) and as sellers (51%, € 1.8 bn). About a fifth of properties traded in Berlin were bought by open-ended mutual property investment funds (€ 661 m); fund managers bought some 12% of the total market (€ 426 m). Developers were the biggest group of sellers, accounting for 15% of the total traded (€ 529 m), followed by insurance companies with a share of 8% (€ 208 m).

Outlook

Core properties are focus of attention

This excellent half-year result should not gloss over the fact that those investing in Berlin are now subjecting purchases to a more critical scrutiny and that without Aroundtown’s takeover of the stake in TLG, the half-year result would have been no higher than in 2014. Having said that, however, investors will continue to be very interested in rock-solid assets such as properties let long-term to government bodies if these are in good or very good locations, because they have cash that must be put to work and interest rates remain low. Based on the first six months, we expect the year to close with a figure of some € 6 bn of investment transactions and stable yields.
Transaction volume: The transaction volume is the sum of the purchase prices of all commercial property sold in Hamburg during the period under review. The date of signing determines when a transaction is included in the statistics. Buy to let investments in residential properties are not included in the transaction volume.

Asset class: A property is allocated to an asset class according to the predominant way in which space is used (at least 75%) when the contract is signed.

Individual properties and portfolio transactions: An individual property transaction means the purchase of a building used for commercial purposes or of a piece of land for development. Portfolio transactions involve the purchase of at least two separate properties in different locations.

Prime yield: The prime yield is the initial return attainable on a property that has been let on normal market terms (tenants with good credit ratings), has top quality structure and fit-out and stands in one of the very best locations. It is stated as the net initial yield in per cent, i.e. the ratio between the annual rental income less non-apportionable ancillary costs and the gross purchase price (net purchase price plus land acquisition tax, notary’s fees and agency commission.)

Glossary
Definitions, investment market

What can we do for you?
An analysis of the property markets is an important part of the wide-ranging consultancy services offered by Grossmann & Berger. We would be pleased to be of assistance in your decision-making process and can draft an offer that is tailored to your specific requirements.

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Skilled consultancy
Services and Contact

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We draw your attention to the fact that all statements made here are non-binding. Most of the information is based on third-party reports. The sole intention of this market survey is to provide general information for our clients.

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