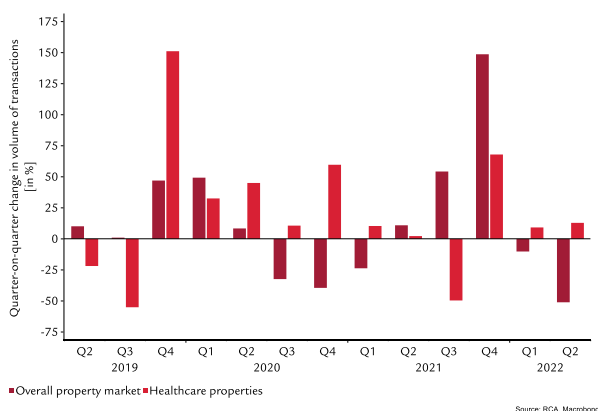


Second half-year 2022

## Key takeaways

- **Inflation protection but markets under pressure:** Although real estate offers inflation protection, with many rents tied to the consumer price index, the investment market is nevertheless showing restraint: Q2 2022 saw the greatest quarterly decline ever measured (-50%). However, it is important to differentiate by sector.
- **In the price limbo:** The caution on the investment market is due to deviating price expectations. While sellers are still drawing on prices of the “old” world (low interest environment), buyers are operating in the context of the new one (higher financing and construction costs). Prices should converge in the second half of 2022.
- **From TINA to TATIANA:** While for a long time it was said due to the low interest rates that there was no alternative to real estate investments (TINA = there is no alternative), the interest turnaround has brought competition to real estate investments from bonds (TATIANA = that astonishingly there is AN alternative).

## Chart focus



While the quarterly investment volume of the German real estate market fell by 50% in Q2 2022 (vs Q2 2021), the healthcare property market is proving more robust: the investment volume rose by around 13% in Q2 2022. Around EUR 525 million were invested in German healthcare properties, and the 12-month volume of transactions came to approximately EUR 3 billion. Savills currently estimates the investment universe of German healthcare properties to comprise a volume of some EUR 201 billion. Almost EUR 16 billion have been invested in German healthcare properties in the last ten years – the market therefore still has a fair amount of potential to offer investors.

Industry in Germany is suffering from the consequences of supply bottlenecks and the resulting high producer costs. The automotive industry is reporting a gradual improvement in the purchase of supplier products, thereby enabling the high order backlog to be reduced in the second half of the year. However, other problems are now causing concern. First of all, the financing costs for buyers of German export goods are rising throughout the world, which has already led to a fall in order intake in industry. And as if that were not enough, Germany is particularly dependent on the availability of Russian natural gas. It is not foreseeable at present how much gas will be available for businesses and households in the coming winter. The likelihood that these unfavourable circumstances trigger a recession in the German economy has risen significantly in recent weeks.

## Differentiated return to the office

With 1.7 million m<sup>2</sup> of take-up in the first half of 2022, the top seven markets are significantly up on the previous year (+45%). A share of 62% is attributable to the second quarter. In annualised terms, office take-up has reached its pre-pandemic level again. The rising rental activity reflects forecasts according to which office employment is set to increase in 2022 (+1.4%). However, attractive space at central locations is essential for the return to the office and demand for it remains high. The increasing distinction between good and poor properties by the market is shown by the growing prime rents in Q2 (top seven: +2.4% on Q1 2022) despite rising vacancies (4.7%, +10 bp). The investment market is bleaker and has cooled noticeably due to the gap between sellers' and buyers' price expectations. According to RCA, the volume of transactions in the second quarter was almost 72% down year on year, marking the sharpest quarterly drop of the last decade. Yields are expected to converge in the second half of 2022.

## Residential: run out of steam for the time being?

The cliché “people will always need somewhere to live” continues to hold true. It can also be assumed due to rising financing costs that more people will rent. However, inflation (ancillary costs risk factor), the interest

turnaround and high construction costs are resulting in cautious investors who among other things are wondering to what extent inflation can be passed on to tenants. The uncertainty is causing investors to migrate to the Core Plus segment, and transaction volumes are under pressure. A third less was invested in the first half of 2022 than in the same period of the previous year. JLL is reporting initial price corrections. After recently having accounted for around 30% of the investment market, the forward deals segment is currently under profitability pressure due to the incalculability of construction costs.

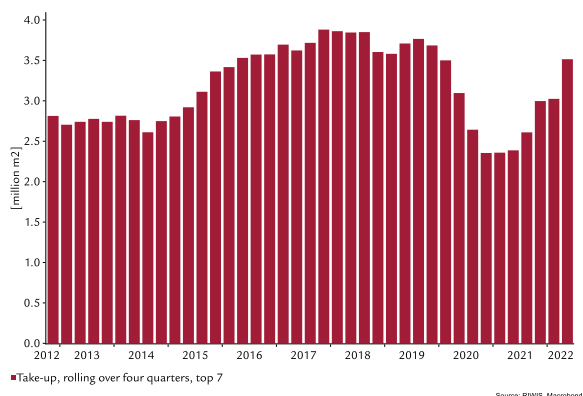
## Problem child retail?

With a traded volume of around EUR 1 billion, Q2 2022 was the weakest quarter of the last decade. Sentiment has also deteriorated for retail parks that were considered safe havens during the coronavirus crisis. According to CBRE, the prime yield of retail parks rose by 10 bp to 3.7%. Savills reports that the prime yield expectation for retail parks lies at 3.6% among retailers and 3.9% among buyers. Both sides were still convergent at 3.5% in Q1 2022. Due to falling real incomes and therefore less capital available to spend on retail consumer goods, the expectations for the rental market are subdued. In a Mintel survey, 50% of those canvassed claim to be reducing their expenditure on clothing and accessories, while a fifth are planning to save on food.

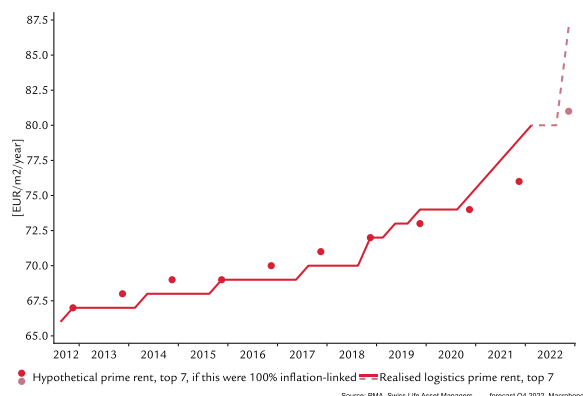
## Logistics: yield pressure halted

Although the logistics investment market is set to post a new record in 2022 due to an extremely strong first half of the year, it is also struggling with the new market environment of higher financing and construction costs. We notice that the at times sharp yield compression of recent years is coming to a standstill. Prime yields in the class A cities rose by ten basis points to 3.10% in the second quarter. The picture on the rental market is more positive: owing to a shortage of space, particularly around the large cities, that is meeting with high demand (the gross value-added of the “Transport and storage” sector will increase by 3.6% in real terms this year), a continued upturn in rents, which are also being driven by inflation, is to be expected. Prime rents have risen more sharply than inflation in recent years.

**Figure 1: Office take-up of top seven**



**Figure 2: Prime logistics rent of top seven**



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