PRESS RELEASE

Frankfurt am Main, 19 February 2015

CATELLA

Catella Research presents Germany 2015 office market and investment map for 76 locations

- Rising demand for newly built office space driven by stable economic performance
- Trend towards investment properties in the core segment, sharp increase in demand for properties in the value-add segment
- Returns in B locations forecast to decline by 50 basis points

Demand for office real estate will lead to a change in the traditional investor mentality in the German market in the current year – this is the key finding made by Catella Research in the context of the Germany 2015 office market and investment map presented today. "In addition to a clearly rising trend in investment demand towards the newly built/first occupancy segment in core locations, what will stand out in the coming months is a further decline in returns in A and B locations", says Dr. Thomas Beyerle, Group Head of Research at Catella.

It seems that for the first time since the financial crisis, demand for investment properties will increase significantly not only in A locations, but that this pressure will also be felt in category B locations and value-add properties. Whereas in the past the spill-over of any surplus investment capital from A to B locations would invariably lead to a stabilisation of prime returns in A locations, this will be the first time that this effect does not materialise. In other words: investors will accept increasing prices for trophy buildings in A locations while at the same time shifting their focus on B locations, continues Beyerle. As a consequence, we will see another record in the German investment market in 2015.

Even though the market still clings to the traditional 5% benchmark for investment properties , the fact that returns in the 7 A locations continue to decline – the current figure is 4.65% – will undoubtedly result in an alternative strategy being pursued which, according to analysts, will dilute the traditional purchase criteria. For the time being, the difference of 150 basis points from the 13 B locations investigated – where average prime returns stand at 6.03% – is in a healthy range overall, but it is here that Catella Research expects the sharpest declines in returns, of 50 basis points, by the end of the year. For A locations, returns are forecast to decrease by an average of 30 basis points. For the 31C locations investigated, an average prime return of 6.67% has been determined, while the 25 D locations currently deliver yields of 7.16%.

Catella Research has identified 3 basic drivers of this development:

- Continued rapid accumulation of liquidity among institutional investors,
- Pressure to invest and meet the minimum return requirement as a result of interest rate levels,
- Entry of new foreign investors – including from Asia.

Beyerle is convinced that “even though the markets' response has a rational explanation in this analysis, we should also prepare ourselves for 'exotic investor stories' and the market entry of new international investors in the current year". This is the way new price thresholds were always broken in the past, or explained rationally. In a booming office investment market, only a small minority will choose to watch from the sidelines or take time out. But the issue of value add in connection with refurbishment will also be a prominent feature this year. And: project development and managed-to-core activities will form part of this year's developments and strategy.

"The markets are booming and we are a long way off from experiencing a crisis situation," continues Beyerle – because prime rents will also rise slightly by the end of the year. However, a new experience for many will be that prices will in some cases break through traditional ceilings. We will have to steel ourselves for new price levels in 2015 – in particular given the prevalence of risk management among companies, which has so far proved effective.

You can find out more about the 76 office markets in the attached file.

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