

Frankfurt am Main, 22 February 2022

Catella Research: Covid Impact on German Office Markets Coming in the Long Term

The impact of the Covid pandemic on the German office property markets has so far been less than feared at the beginning of the situation. Slight effects are noticeable on the rental markets, none on the investment markets. However, the new Catella office market study combines this stocktaking with some forecasts: the home office as a supplementary variable in the space function will have its effect. In this respect, space reallocations will be priced in over the medium to long term. In the short to medium term, effects from a change in interest rates by the ECB are more likely.

Prof. Dr. Thomas Beyerle, Head of Research, Catella Property Group, comments: "The increasing blending of risk parameters, which was already indicated in last year's analysis, can now be increasingly observed across all A to D locations. From an investor's point of view, this means that there is still great potential for diversification. We should price in a change in interest rates in the upcoming investment decisions."

To the facts:

- **Heterogeneous rental development:** For the second year in a row, rental price development is in a very narrow range of +2.08% (B locations) to -0.21% (C locations). In the B locations, the top rent rose to €16.20/sqm, while in the C cities it fell slightly to €14.13/sqm.
- **ABBA and ACDC:** The A and D locations showed somewhat less dynamics but increased by 0.83% and 0.35% respectively compared to the previous year. In detail, the top rents are €33.92/sqm in the A cities and €11.44/sqm across all D locations.
- **Highest rents, tallest buildings:** Frankfurt remains the leader in office rents at €45.00/sqm – we see the lowest value in Salzgitter at currently €7.90/sqm, followed by Gera at €8.50/sqm.
- **Living below 3%:** The average prime yield in the top 7 locations is still well below the 3% mark and has once again fallen slightly compared to the previous year. The lowest prime yields can be found in Berlin (2.5%) and Hamburg (2.6%). The highest measured values are again achieved in Wilhelmshaven (6.9%) and Hagen (6.8%).
- **Aif – A-locations in focus:** Overall, a sustained yield compression can be observed across all location categories, which, however, is the strongest in A-locations compared to the previous year (-5.92%). Subsequently, the largest percentage decrease occurred in B locations (-2.74%), with compression occurring at similar levels in C (-1.57%) and D cities (-1.26%). This further illustrates the high relevance of A locations for investors.

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- **Capital of total return:** In terms of total return (TR) over the last 10 years, Berlin continues to lead with an average annual total return of 19.76%. This represents a decrease of 88 bp compared to the previous year. However, it can generally be said that the spread between the individual locations continues to decrease.
- **B with radiance:** For the A cities, the TR forecast for the coming years has become even more compact. As a result, medium-sized cities with a higher initial yield could continue to gain in attractiveness, with the TR forecast for B locations showing strong compression up to 2025.

You can download the complete study here:

<https://www.catella.com/de/deutschland/research>

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