

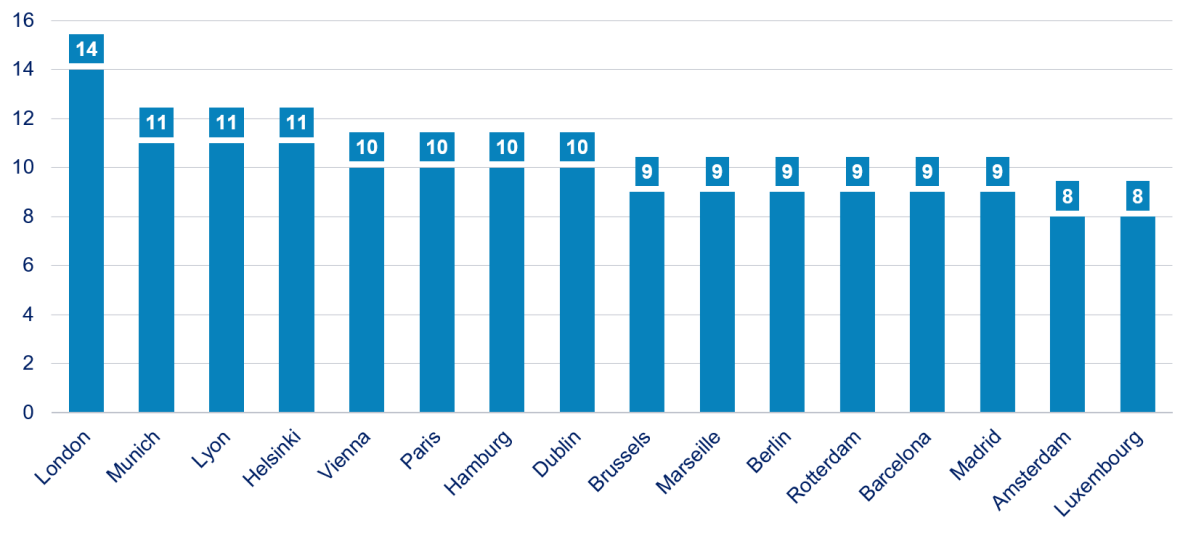


## Office is back!

### Historic high yields and rental growth in city centre locations offer opportunities

The European office market currently offers interesting entry opportunities. On the one hand, initial yields have risen again to attractive levels as a result of the price correction in recent years. In a historical comparison, yields are currently at an 8- to 14-year high, depending on the city (see figure 1). On the other hand, prime rents in the core segment in top locations are continuing to rise despite the increase in vacancies.

Figure 1: Yield comparison for office buildings - yield end 2024 versus historical yield (figure expresses historical yield high in years)



Data source: PMA; chart: Real I.S.

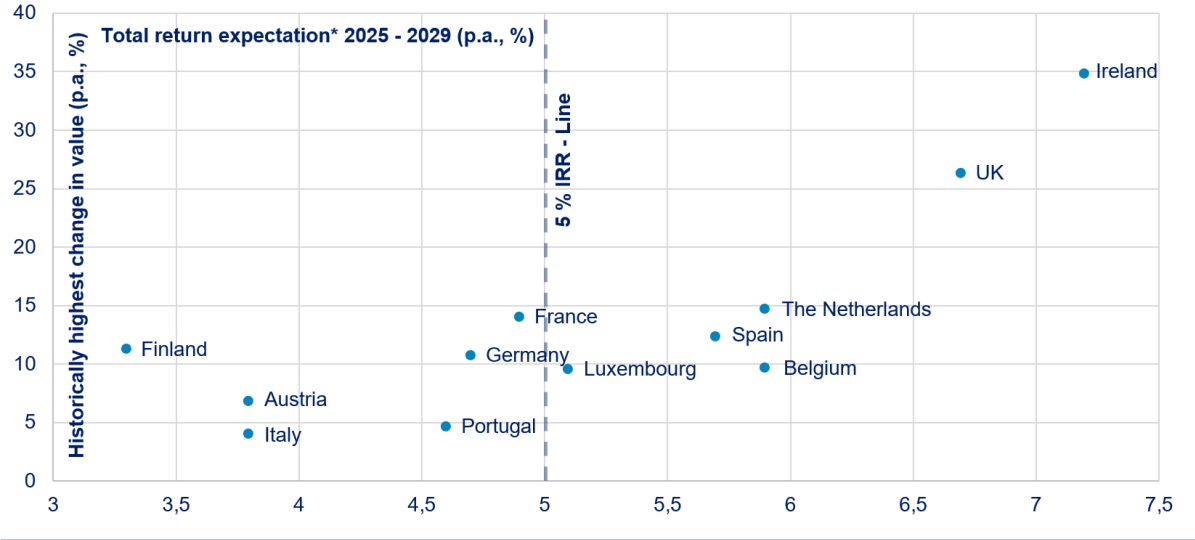
The latter was impressively demonstrated by the letting of 5,800 sqm of office space from 2027 in Munich city centre by a law firm for 64 euros/sqm (the previous prime rent was 54 euros/sqm).

A slight compression of yields is expected in the coming years due to a renewed rise in purchase prices and continued growth in prime rents. Which countries offer the best risk/return ratio in this market environment and what could a high-yield investment strategy for 2025 and beyond look like?

The investment markets for office property still lack a sufficient supply of properties at the new, lower purchase price level. As a result, it is currently challenging to set up an investment strategy

focussing on niche markets in the smaller countries of the Eurozone. Large and liquid markets such as the UK, Germany and France should therefore form the core markets of an investment strategy. In addition, Spain, the Netherlands and Belgium currently offer an attractive risk/return ratio. Figure 2 shows this based on the total return expectations for the next five years (sum of expected cash flow return and change in capital values) compared to the individual market risk (highest historical loss in capital value in a calendar year) for selected countries. According to this, Spain, the Netherlands and Belgium offer expected total returns of around 6% p.a., with average historical capita value change risks in a country comparison.

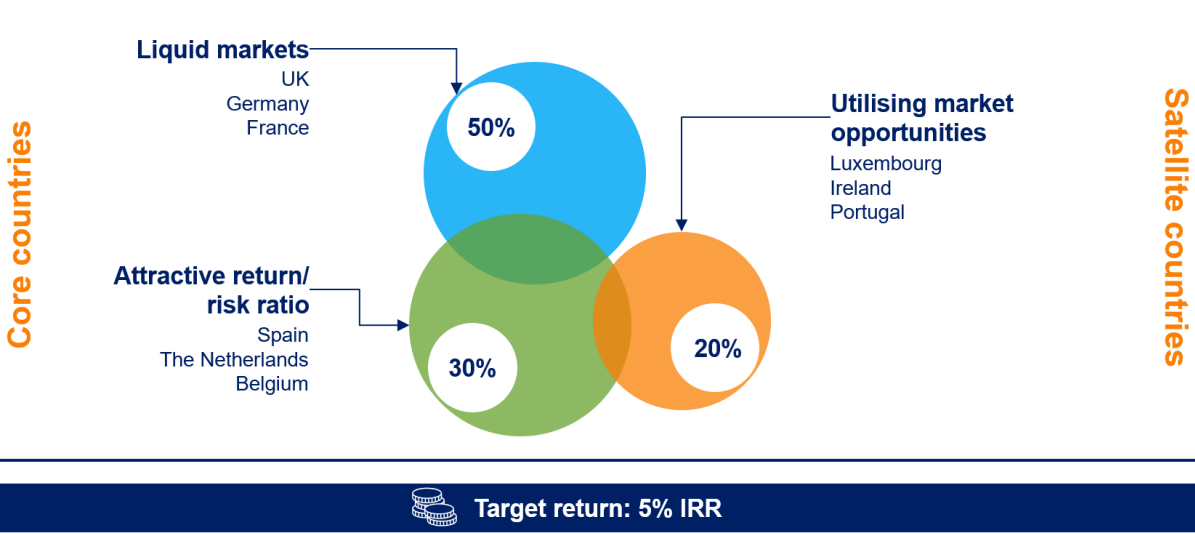
Figure 2: Risk/return analysis for European office markets



Data source: PMA, MSCI; chart: Real I.S.  
 \* Sum of cash flow yield and return on capitalisation for a theoretical prime property in the respective market

In addition to these core countries, yield opportunities could be utilised in smaller countries (satellite countries) that offer high growth potential (e.g. Ireland, Portugal or Luxembourg). The result would be a portfolio allocation analogous to the following figure. For this model portfolio, a distribution yield of a good 4% (with calculated 30% leverage) and an IRR of around 5% could be achieved in the Core/Core+ risk class at fund level.

Figure 3: Portfolio allocation by country: Core-satellite strategy

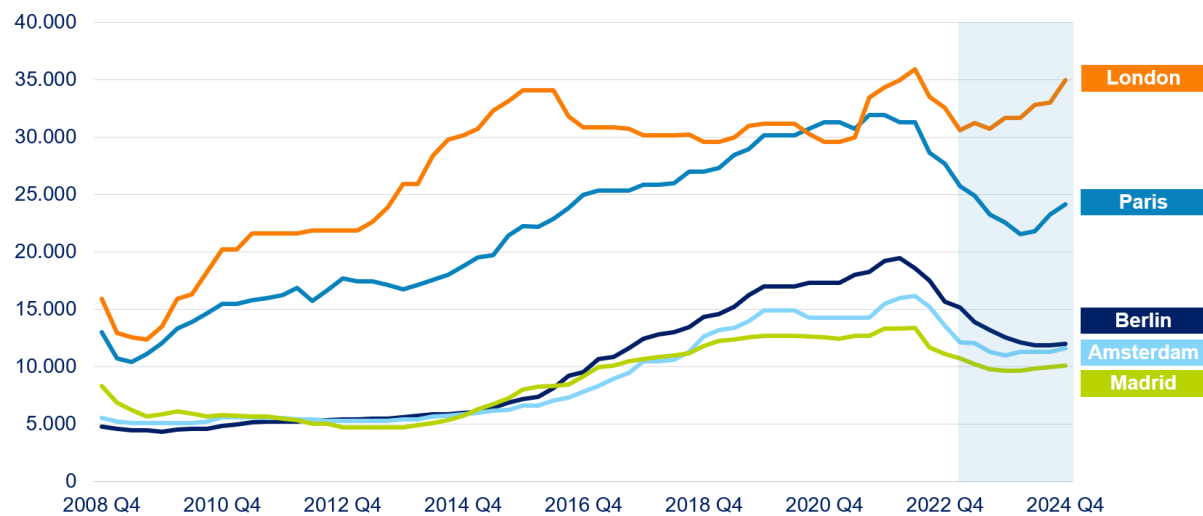


Source and chart: Real I.S.

In addition to the risk/return ratio and market liquidity, the right timing must also be considered when building a portfolio. Some countries, or rather the major cities in these countries, are already showing a visible market recovery. A trend reversal in price development is currently visible for the

UK/London and France/Paris office markets, in particular (see figure 4). Consequently, these countries/cities could be prioritised at the start of the investment phase when building up a portfolio so as not to miss a good window of opportunity for an investment.

Figure 4: Price development for office buildings (euros/sqm)



Data source: PMA; chart: Real I.S.

## Conclusions & outlook

The office market is once again offering opportunities. The right investment strategy in terms of timing, portfolio allocation by country/city and a balanced risk/return analysis ensure long-term, solid performance for investors. In the core/core+ segment, distribution yields at fund level of 4% and more can be generated again for a diversified European office property portfolio.

Kind regards

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