Briefing note
French investment in Germany

September 2017

French investment in Germany increased by 13%

French investment in Germany totalled almost €1.5bn in the first half of the year, compared to €1.4bn during the same period last year. Hence, French investments accounted for 10% of the total €13.5bn of foreign capital invested in Germany. While the volume is almost similar to last year, activity is clearly increasing. Indeed, last year the volumes were inflated by the signature of a few large portfolios, including the acquisition of a hotel portfolio by Foncière des Régions and the acquisition by Primonial of a large care home portfolio.

Whereas their activity used to be mostly concentrated on retail and office asset classes, French investors are now expanding their activity to alternative assets. Mirroring investment into France, the hunt for higher yields and income stream producing assets is pushing investors towards diversification.

Asset Management companies have been particularly active although all types of investors have a growing presence in Germany. The top five investors in terms of investment volume since the beginning of 2016 are Primonial, Foncière des Régions, Axa Investment Managers, BNP Paribas Real Estate Investment Management and AEW Europe.

"Shopping" next door

French investors are increasingly "shopping" abroad, notably seeking higher yields. Indeed, the French commercial property market has become the most expensive in Europe for the first time ever. The prime CBD office yield in Paris is 3.00%. It is 3.10% in both Berlin and Munich, 3.25% in London WE, 3.30% in Frankfurt, 3.40% in Stuttgart, 3.50% in Hamburg, 3.7% in Cologne and 4% in London City.

But the main reason is that the French property "basket" is no longer big enough given the amount of capital to be spent. Prime opportunities are increasingly scarce whilst the amount of money dedicated to real estate continues to grow. SCPIs net inflows have more than doubled between 2012 and 2016 from €25bn to €55.6bn.

During the first half of the year, more than 50% of French capital was allocated to continental Europe (excluding France), according to RCA. This had not happened since the first half of 2007 when this share reached 60% of the French capital.

The stars are aligning

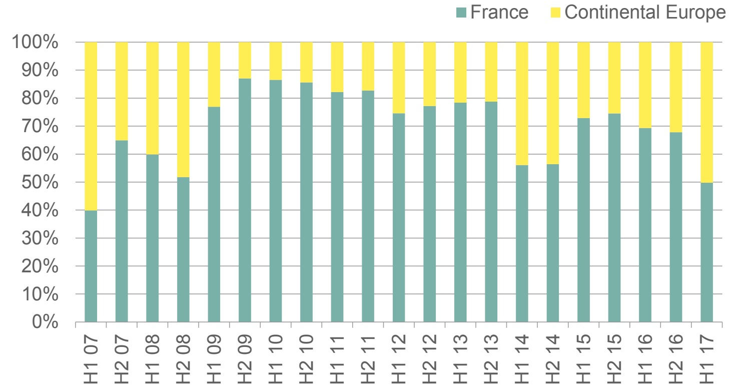
French investors' emancipation is not just about price and capital. The timing is also ideal as French investors are regaining confidence. Beyond the political promises made, the new president Macron has opened a new political era in France, which will further open the French borders. While more foreign investors may be considering France and Paris as serious options in the months to come, in turn, French investors are even more likely to be constrained when seeking opportunities abroad.

Traditionally French investors have been domestically focused, therefore they avoid risks while abroad. They avoid currency fluctuation by remaining within the Eurozone, they target core countries and look close by, and this is why Germany is the ideal destination.

Germany is shining across the world, certainly benefiting from Brexit. Yet there are other reasons for Germany's continued success as investor destination of choice.

GRAPH 1

French investments More than half of the French capital was allocated to continental Europe



Source: RCA

Why Germany?

Beyond the competitive yields, Germany clearly has strong property fundamentals. The office vacancy rate in some of the German cities is amongst the lowest in Europe, notably in Berlin (2.5%) and in Munich (3.6%). Additionally, in Berlin, the annual growth in office rents reached 33.2% between H1 2016 and H1 2017, a record in Europe.

The economy is also flourishing. According to FocusEconomy, the German GDP is expected to grow by 1.9% at the end of the year then by 1.8% in 2018, notably thanks to strong growth in exports and industrial production. Domestic demand will remain solid but not as supportive as last year. The unemployment rate will continue declining.

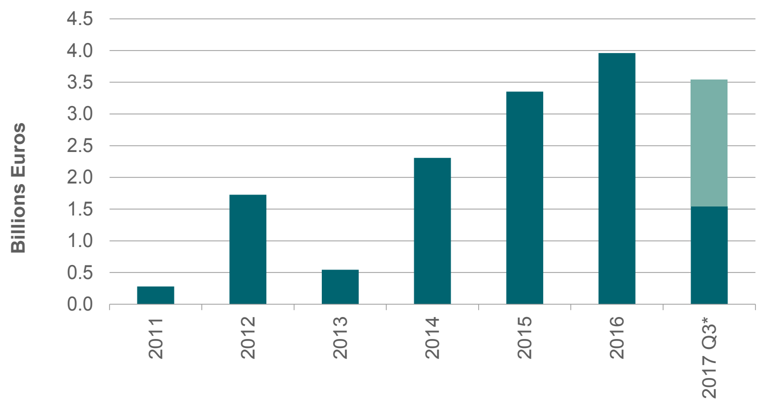
It is a large market and deep, the annual investment volume is twice the size of the French turnover, increasingly liquid and transparent. More than half (51%) of the total investment is cross-border. Germany is set to take over the UK position as the top European country in terms of investment volume.

Germany is a federal state hence political and economic powers are far less centralised in the capital city as it is in Paris and London, which both concentrate some 30% of the national GDP. This provides much more opportunities to look at for investors.

Finally, it is within the Eurozone and right next door.

GRAPH 2

French investment in Germany The end-year volume is expected to be in line with the past two years



Source: Savills / *First estimations

OUTLOOK

- The international success of the German real estate market is strongly contributing to the downward pressure on yields. Today the difference between the prime office yields in France and in Germany is only 10bps. (Paris 3%, Berlin 3.1%). It was 65bps during the last peack (Paris 3.5%, Frankfurt 4.15%).
- The retail yield gap between the two countries is more advantageous, but apart from high street retail, French investors tend to skip retail assets, even in their home country. This is due in particular to the rise of e-commerce and the potential risk it represents for brands that have not adapted.
- In the end, yield compression, lack of prime products available and strong competition make of Germany a country that may appear to have lost some of its attractiveness to French investors. They seek new destinations, predominantly within the Eurozone, particularly Spain, the Netherlands and more recently Italy.
- However, due to its market size, Germany will remain a country of choice for French investors. We estimate that the volume of French investments in Germany is expected to be around €3.5bn, in line with the volumes recorded in 2015 (€3.4bn) and 2016 (€3.9bn).

TABLE 1

Prime yields

Q3* 2017	Paris	Berlin	London
High street	2.50%	3.30%	2.90%
Offices	3.00%	3.10%	3.25%
Student housing	4.50%	4.00%	4.60%
Shopping centre	4.25%	4.60%	4.25%
Logistics	5.50%	5.30%	4.50%

Source: Savills / *first estimations

Savills teams

Please contact us for further information

Boris Cappelle
France Investment
+33 (0)1 44 51 77 17
bcappelle@savills.fr

Marcus Lemli
European Investment
+49 (0)69 273 000 11
mlemli@savills.de

Matthias Pink
Germany Research
+49 (0)30 726 165 134
mpink@savills.de

Lydia Brissy
European Research
+33 (0) 624 623 644
lbrissy@savills.com