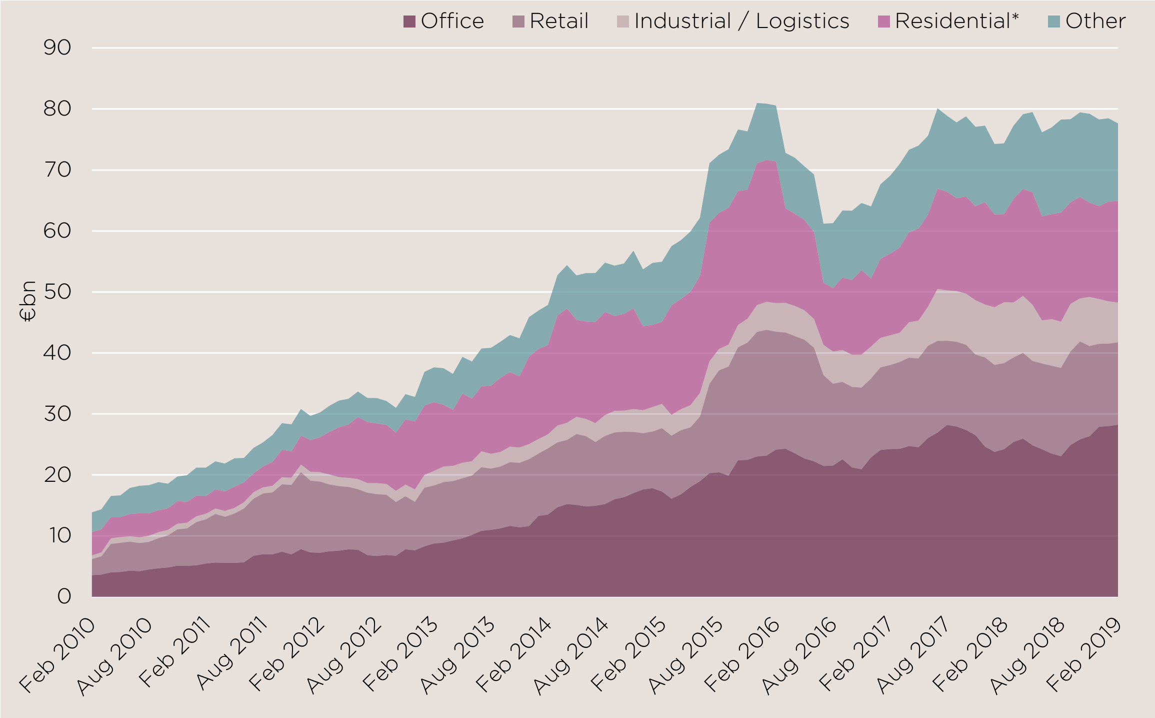
March 2019

MARKET IN MINUTES
Savills Research

Investment Market Germany

Graph 1: Transaction volume Germany (past 12 months rolling)



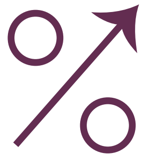
Source Savills / * only residential transactions with at least 50 units

More new build, more development

Commercial and residential property in Germany changed hands for approximately €4.1bn in February. The rolling twelve-month volume stood at approximately €77.7bn, representing a 1% decline on the previous month (Table 1).

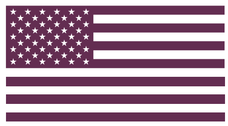
The supercycle that commenced more than a decade ago is being reflected in rising development activity in 2019. According to preliminary figures, more apartments in apartment buildings have been approved in the last year than in any of the last 22 years. A total of around 3.38 million sq m of office space is scheduled for completion in the top seven office markets this year and next year. The last time we witnessed a pipeline of such magnitude was 26 years ago (3.45 million sq m in 1993/94). This buoyant construction activity is also manifesting itself in a high proportion of development transactions in the investment market. Such deals have accounted for around 15% of the transaction volume over the last 12 months, compared with a five-year average of around 11%. Early acquisition of development projects offers investors the opportunity to secure a sought-after (core) property for their portfolios. In such new builds the achievable rents in the office markets are on their highest level for 27 years. Prime rents in Frankfurt, for example, stood at €40.50 per sq m/month at the end of 2018 while those in Munich stood at €36.50 per sq m/month. Further rental growth of 6% to 7% is likely over the next twelve months. In the apartment market, new builds have a legal advantage in terms of achievable rents compared with existing properties, insofar as these are covered by the rental cap.

Focus on selected figures



30%
The transaction volume for industrial property over the last twelve months was 30% higher than the five-year average. volume for Germany.

7.3bn
Office properties in Frankfurt changed hands for almost €7.3bn over the last twelve months – almost a quarter of the nation-wide office volume.



+38%
In the residential investment market, purchasers from the USA invested 38% more over the last twelve months than their five-year average.

Table 1: Transaction volume (€m)

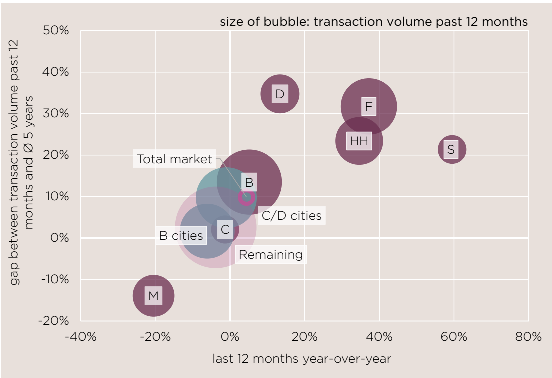
	Feb 2019	last 12 months (Mar 2018 to Feb 2019)	against Mar 2017 to Feb 2018	against Feb 2018 to Jan 2019
Commercial	3,337	60,984	+1.7%	-1.8%
Residential*	783	16,667	+15.5%	+1.9%
Total	4,120	77,651	+4.4%	-1.1%

Source Savills / * only residential transactions with at least 50 units

Acquisitions of properties under construction or in planning accounted for approximately a quarter of the transaction volume in the residential investment market over the last twelve months, compared with 12% in the commercial investment market. However, there are significant differences within the commercial real estate market. Development acquisitions accounted for 16% of the transaction volume for office properties over the last twelve months, which is the highest figure in the current market cycle. In the retail sector, the corresponding figure is only around 3%. This is a reflection of the significant differences in new-build activity across the various uses. Meanwhile, 11% of the transaction volume for high-street properties over the last twelve months was attributable to acquisitions by developers. This is likely a manifestation of the increase in construction projects in high-street locations.

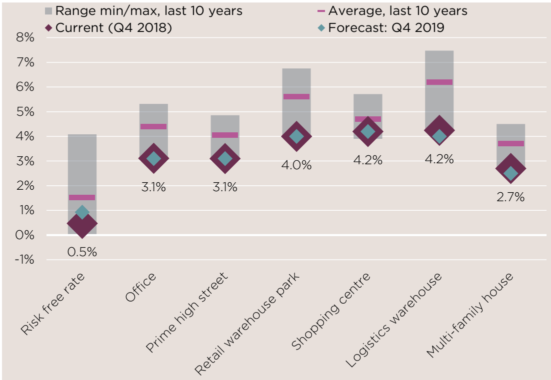
Developers have also been very active as purchasers in the investment market for logistics and industrial property, accounting for around 13% of the transaction volume over the last twelve months. Some 61% of their acquisition volume was attributable to properties purchased with the intention of a change of use. Often, a residential development is planned in an urban commercial area, which is a consequence of the strained housing markets and the associated demand for building land.

Graph 2: Level and momentum by locations



Source Savills / Note: city categories based on the Bulwiengesa classification; only residential transactions with at least 50 units

Graph 3: Prime yields (Ø Top 7)



Source Focus Economics, Savills / risk free rate = 10Y government bunds; multi-family: only stock, calculation based on Bulwiengesa

Table 2: Top 10 transactions in February 2019*

Property /Portfolio Location(s)	(Main) Type of property	Volume (€m)↓	Area (sq m in 000s)	Buyer	Seller
Oberbaumcity, Berlin	Office	undisclosed	ca. 88	Blackstone Quincap Investment	HVB Immobilien AG
Portfolio Berlin	Residential	ca. 250	undisclosed	STADT UND LAND	Schönefeld Wohnen GmbH
Königsbau Passagen, Stuttgart	Retail	undisclosed	undisclosed	undisclosed	Evans Randall Investment
Portfolio, Hamburg	Residential	ca. 174	undisclosed	SAGA GWG	FEWA
Titanium Startportfolio	Logistics-, Industry	ca. 168	ca. 191	Axa, Sirius Real Estate	Sirius Real Estate
Westend Yards Munich	Office	ca. 135	ca. 30	LaSalle Investment Management	PGIM Real Estate
Ostsee Park Lambrechtshagen	Retail	undisclosed	ca. 60	Union Investment	CORPUS SIREO Asset Management
Rheinstraße 2 Mainz	Office	undisclosed	ca. 31	GEG German Estate Group AG	KGAL GmbH & Co. KG
Arne-Jacobsen-Haus, Hamburg	Office	undisclosed	ca. 48	Matrix Immobilien	Vattenfall
Aurum Munich	Office	undisclosed	ca. 14	M&G International Investments	JP Morgan Asset Management

Source Savills / * only published transactions are shown

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