

Market in Minutes

Germany investment markets

Q4 2014



The facts at a glance

Hardening prime yields make the non-core segment even more attractive

■ Investment in German commercial property totalled almost €40bn in 2014. This represents an increase of 27% on the previous year; itself a very strong year for investment.

■ In contrast with the commercial property market, the transaction volume for residential portfolios fell by 14% to approx. €12.1bn. This is primarily attributable to the fact that transaction activity increasingly shifted from the high-value major cities towards smaller cities.

■ Investors in commercial property also increasingly shifted their focus to B markets and B locations as the surplus demand in the core segment intensified further.

■ The increasing risk tolerance of investors led yields in the secondary segment to harden further than prime yields for the first time in the current cycle. Nevertheless, prices have yet to reach their historic high in this segment, whereas previous highs in the prime segment have already been exceeded.

■ Owing to the high pressure to invest, there was increasing transaction activity above the €100m mark. Consequently, portfolios are enjoying increasing demand. The transaction volume for residential and commercial property portfolios last year totalled more than €26bn.

■ The transaction volume is expected to rise further in 2015. This is likely to be particularly driven by foreign investors.

Commercial investment market Germany

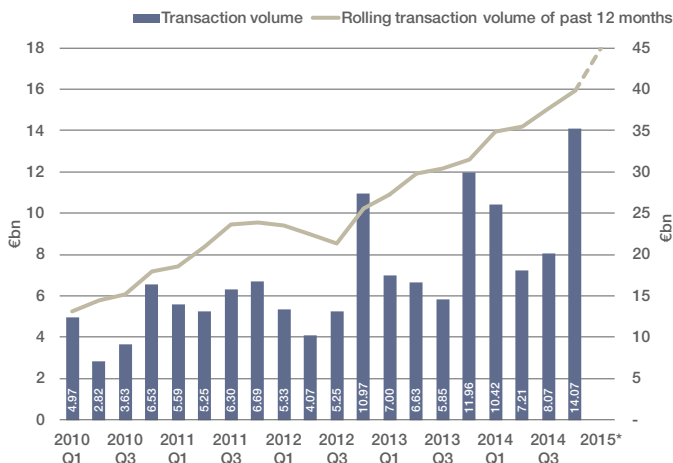
Q1-Q4 2014

TABLE 1
Key investment market figures

	Transaction volume (€m)		Dominating sector		Share of domestic investors		Office prime net initial yield		High street prime net initial yield	
	Q4 2014	y-o-y change	Sector	Share	Q4 2014	Q4 2013	Q4 2014	y-o-y change	Q4 2014	y-o-y change
Berlin	3,996	+13%	Office	49%	48%	- 24%	4.3%	-40bps.	4.0%	-40bps.
Düsseldorf	1,900	- 5%	Office	69%	66%	+14%	4.3%	-40bps.	3.9%	-30bps.
Frankfurt	4,811	+42%	Office	67%	62%	- 11%	4.3%	-20bps.	3.6%	-10bps.
Hamburg	3,535	+23%	Office	57%	43%	- 35%	4.3%	-20bps.	4.2%	-20bps.
Cologne	1,082	+27%	Office	66%	52%	- 33%	4.6%	-30bps.	4.3%	-10bps.
Munich	4,634	+4%	Office	71%	51%	- 4%	4.0%	-25bps.	3.5%	+/-0bps.
Germany*	39,781	+27%	Office	45%	47%	- 28%	4.3%	-29bps.	3.9%	-18bps.

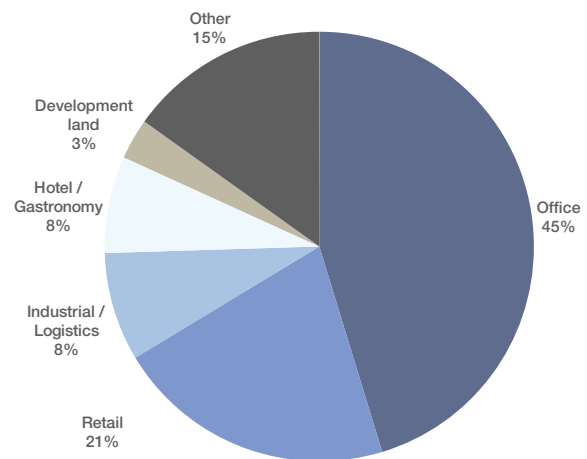
Source: Savills / * prime yields = Ø top six

GRAPH 1
Transaction volume



Source: Savills / * forecast

GRAPH 2
Transaction volume by sector



Source: Savills

German commercial investment market in minutes

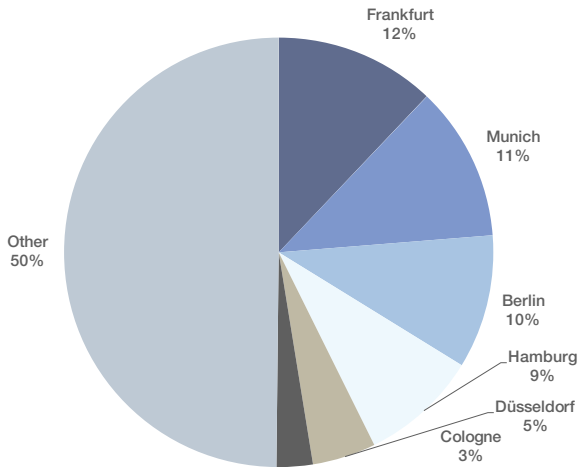
Prime yields at record low, price growth in the non-core segment

- The transaction volume for German commercial property in 2014 totalled €39.8bn, representing an increase of 27% compared to the previous year.
- The further increase in demand for German commercial property was reflected not only in the rising transaction volume but also in price growth. Prime yields on office property fell by some 30 basis points over the course of the year, ending 2014 at an average of 4.3% across the top six markets.
- In contrast with previous years, yields in the secondary segment tightened noticeably further than those in the prime segment last year. Secondary office Non-CBD yields fell by an average of around 40 basis points during the year. Unlike in the prime segment, however, the record lows of 2006/07 have yet to be reached on secondary property.

Commercial investment market Germany

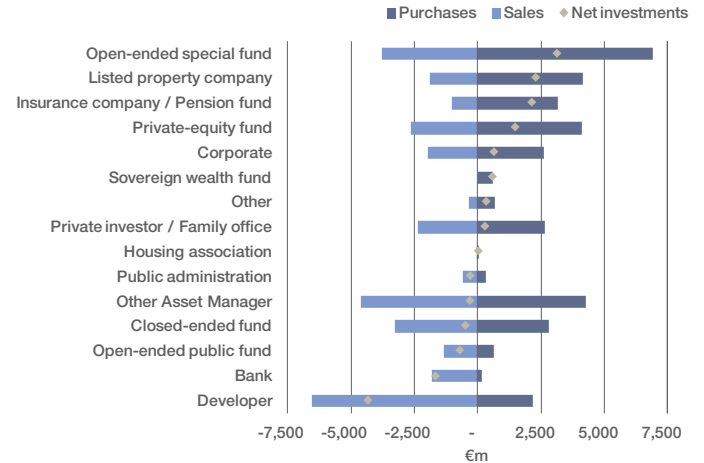
Q1-Q4 2014

GRAPH 3
Transaction volume by location



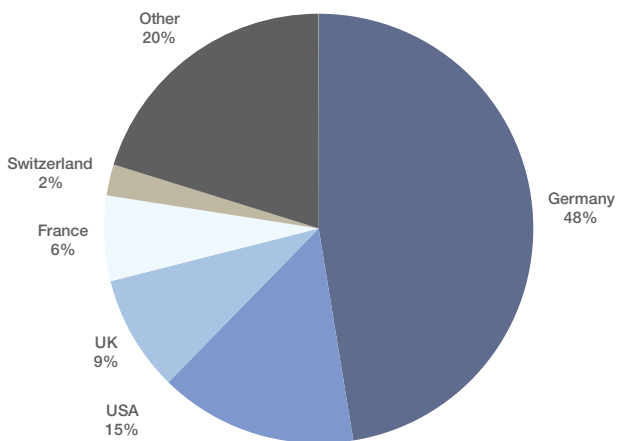
Source: Savills

GRAPH 4
Transaction volume by type of investor



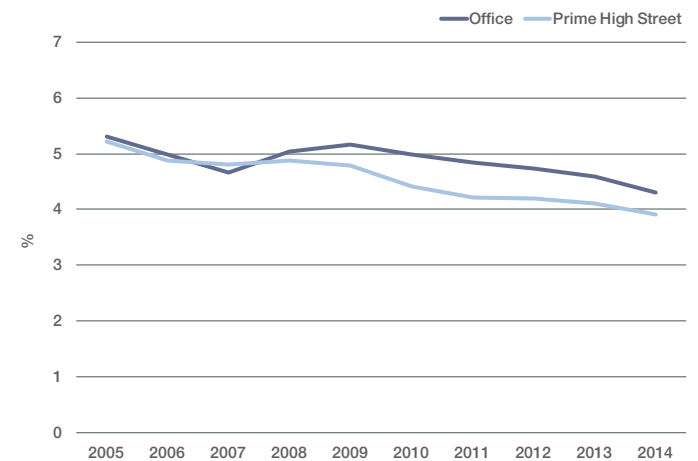
Source: Savills

GRAPH 5
Transaction volume by origin of buyer



Source: Savills

GRAPH 6
Prime yields



Source: Savills

TABLE 2
The largest transactions in 2014 at a glance*

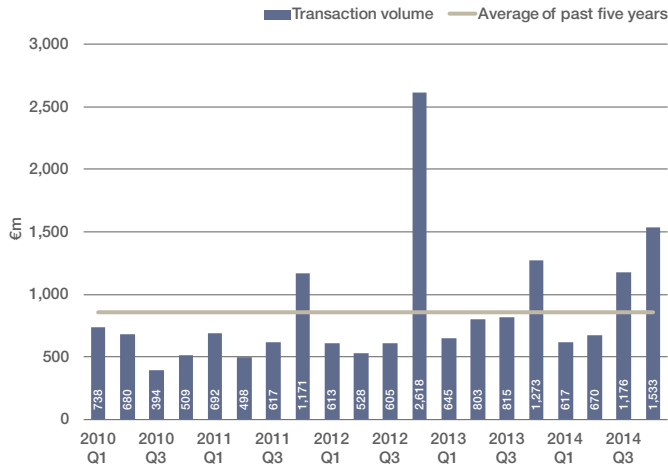
Property / Portfolio	Type of use	Location(s)	Volume	Buyer	Vendor
Leo 1 portfolio	Office	Hesse	approx. €1,000m	Patrizia	Commerz Real
Palais-Quartier	Mixed-use	Frankfurt	approx. €800m	Deutsche Asset & Wealth Management	Rabo Real Estate
Accor portfolio	Hotel	Germany + Netherlands	approx. €720m	Accor	Moor Park
Median portfolio	Hospital	across Germany	approx. €705m	Medical Properties Trust	Waterland
Centro (50% share)	Retail	Oberhausen	approx. €540m	Unibail-Rodamco	Stadium Group

Source: Savills / * only published transactions are shown

Commercial investment market Berlin

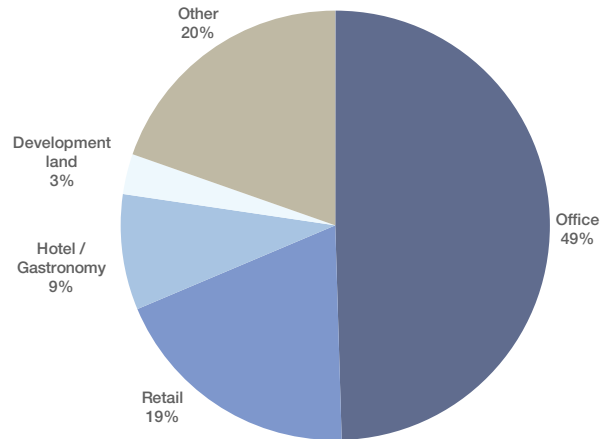
Q1-Q4 2014

GRAPH 7 Transaction volume



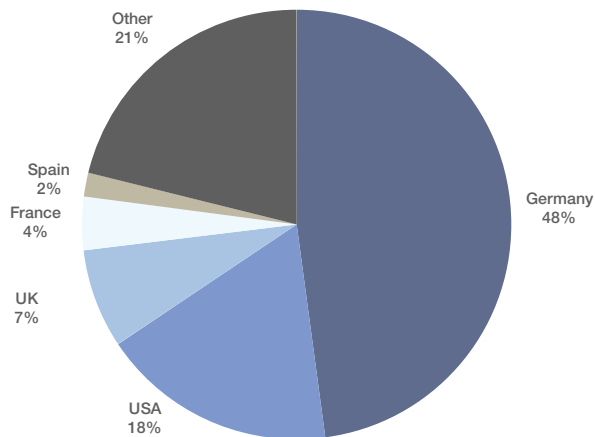
Source: Savills / * forecast

GRAPH 8 Transaction volume by sector



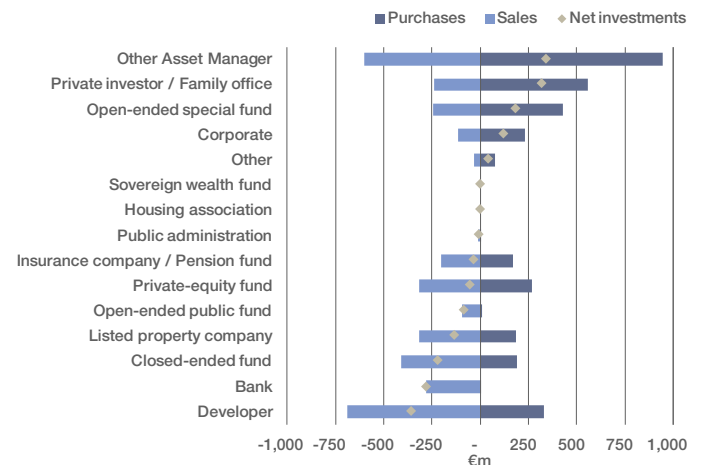
Source: Savills

GRAPH 9 Transaction volume by origin of buyer



Source: Savills

GRAPH 10 Transaction volume by type of investor



Source: Savills

Berlin market in minutes

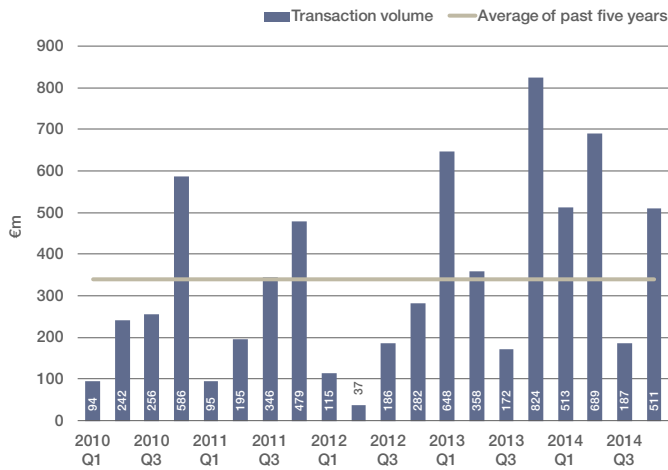
Berlin is becoming the German investment capital (for foreigners)

- Investment in commercial property in Berlin totalled approximately €4bn last year; a further 13% rise on a strong previous year.
- A material factor in preventing an even higher transaction volume is the relatively low amount of large commercial property in Berlin. This is also reflected in the composition of the transaction volume by sector. Since the retail sector is particularly characterised by a lack of large properties, the transaction volume in the sector fell by approximately 50% to some €750m.
- Foreign investors in particular were primarily seeking large deals and continue to do so. They accounted for 52% of the overall transaction volume last year, with US (approx. €600m) and British investors (approx. €250m) particularly active. However, investors from the Asia Pacific region (excluding the Middle East) have also become active in Berlin (more than €130m).

Commercial investment market Düsseldorf

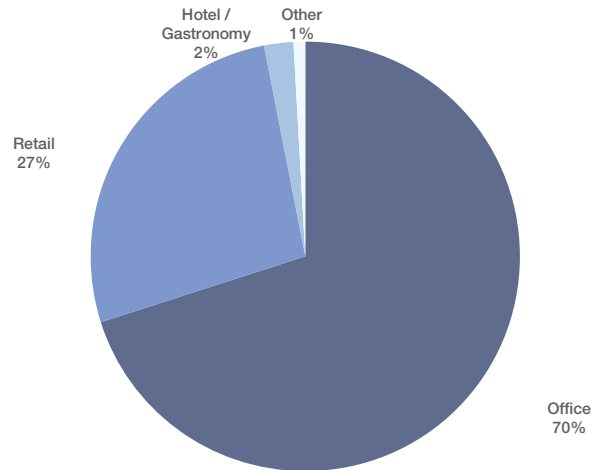
Q1-Q4 2014

GRAPH 11 Transaction volume



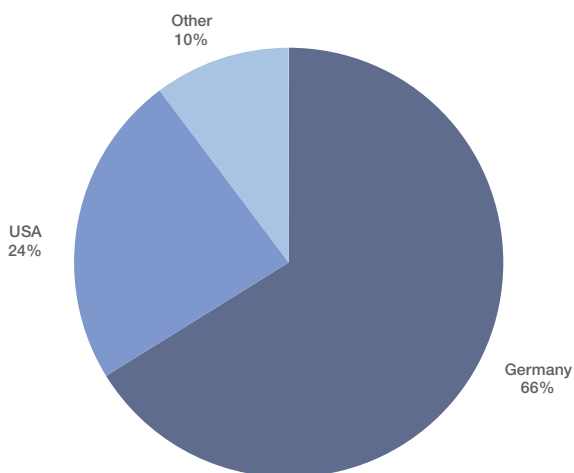
Source: Savills / * forecast

GRAPH 12 Transaction volume by sector



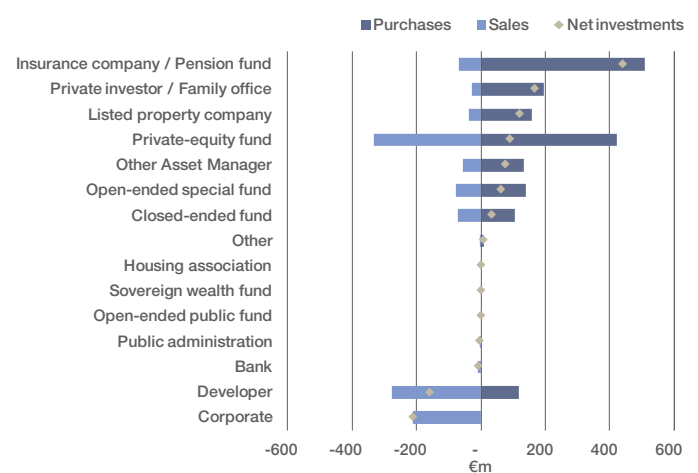
Source: Savills

GRAPH 13 Transaction volume by origin of buyer



Source: Savills

GRAPH 14 Transaction volume by type of investor



Source: Savills

Düsseldorf market in minutes

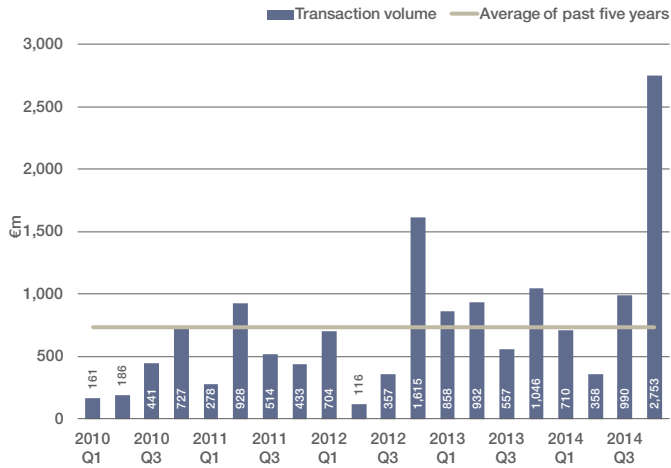
Peripheral locations benefit from supply shortage and high CBD price levels

- The commercial investment market in Düsseldorf fell just short of its record transaction volume from 2013 last year. In 2014, commercial property changed hands for a total of €1.9bn in Düsseldorf; just 5% or €100m below the previous year's transaction volume.
- Owing to excess demand in the core segment, prime yields tightened further last year. At the end of the year, prime office yields stood at 4.3% (Q4 13: 4.7%), while those on prime high street property ended the year at 3.9% (Q4 13: 4.2%).
- Since price levels in the prime segment are now too high for many investors, they are having to adapt their investment profiles in order to be able to invest at all. Investors are seeking opportunities in B locations, among which the Kennedydamm submarket was a particular area of focus last year.

Commercial investment market Frankfurt

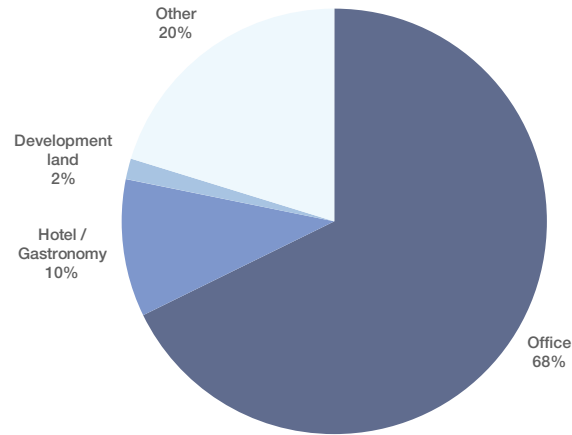
Q1-Q4 2014

GRAPH 15
Transaction volume



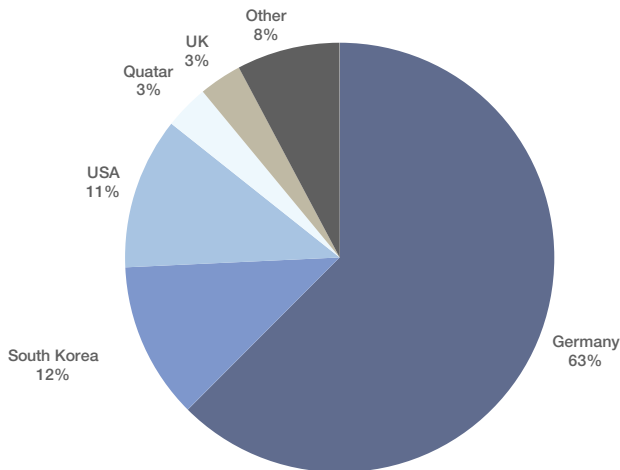
Source: Savills / * forecast

GRAPH 16
Transaction volume by sector



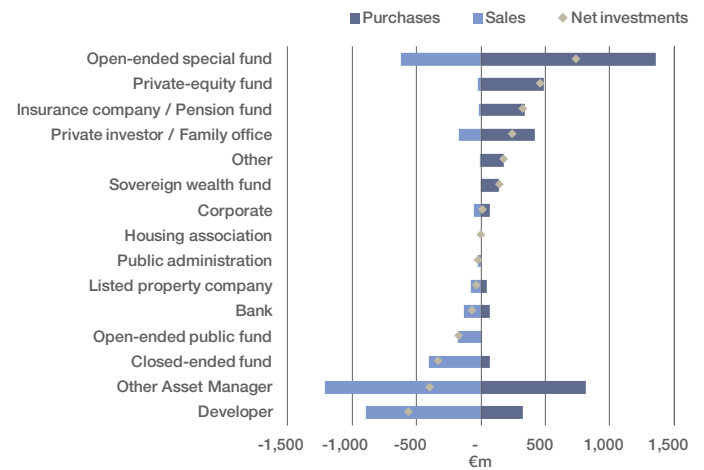
Source: Savills

GRAPH 17
Transaction volume by origin of buyer



Source: Savills

GRAPH 18
Transaction volume by type of investor



Source: Savills

Frankfurt market in minutes

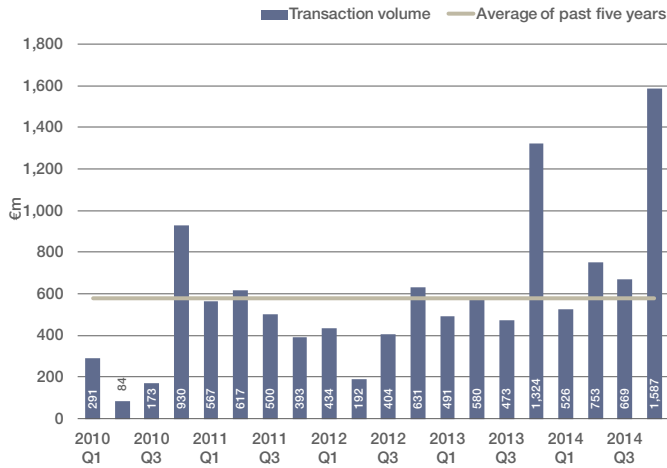
High pressure to invest drives investors towards periphery and surroundings

- Thanks to an extremely strong final quarter, the annual transaction volume for commercial property in Frankfurt reached almost €5bn in 2014. Commercial property changed hands for a total of more than €4.8bn in the Frankfurt city region, of which €2.8bn was attributable to Q4.
- One indication of the high pressure to invest is the fact that investors are increasingly looking to the peripheral and surrounding areas of Frankfurt for investment opportunities. If the Frankfurt hinterland is included, the transaction volume significantly exceeded €5bn.
- The high pressure to invest combined with a very limited supply of high quality property in central locations caused prime yields to harden further in the final quarter. In the office sector, prime net initial yields fell by a further 10 basis points to 4.3%. Office property also accounted for by far the highest transaction volume of all sectors last year. Investments in office property totalled more than €3.2bn.

Commercial investment market Hamburg

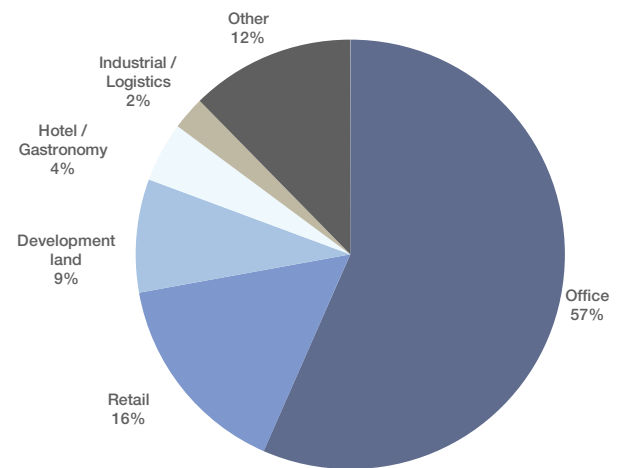
Q1-Q4 2014

GRAPH 19 Transaction volume



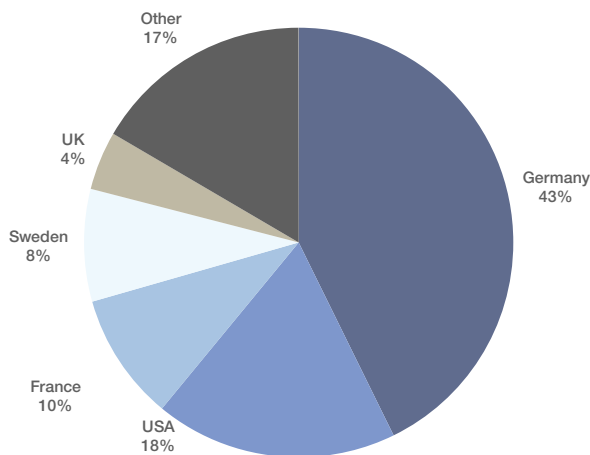
Source: Savills / * forecast

GRAPH 20 Transaction volume by sector



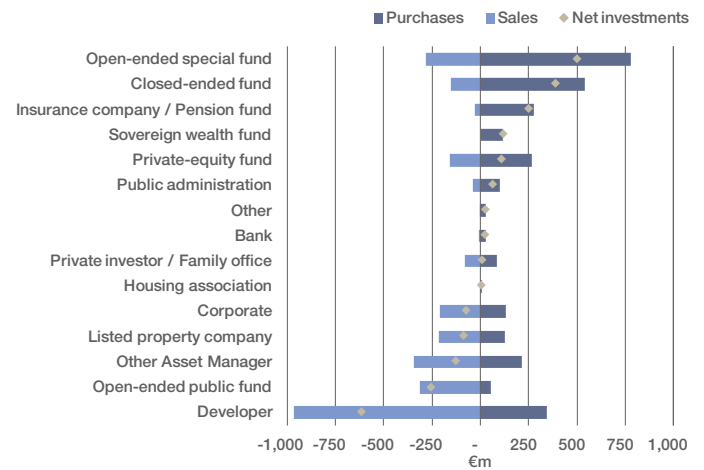
Source: Savills

GRAPH 21 Transaction volume by origin of buyer



Source: Savills

GRAPH 22 Transaction volume by type of investor



Source: Savills

Hamburg market in minutes

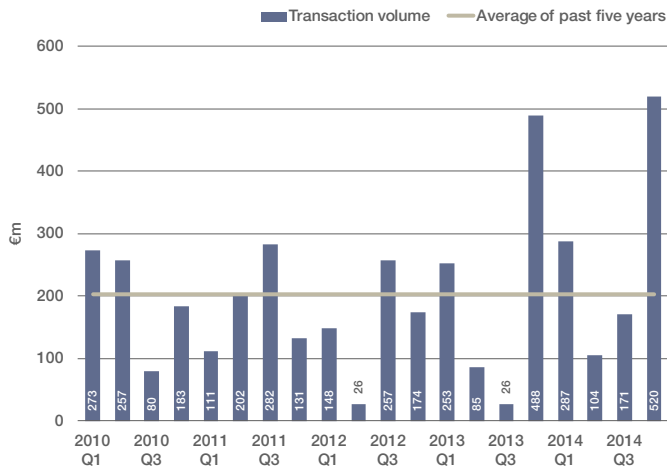
Foreign investors account for more than half of the transaction volume

- Investment in commercial property in Hamburg totalled more than €3.5bn last year; an increase of 23% on 2013. Almost half of the overall transaction volume was recorded in the final quarter.
- The structure of purchasers by country of origin is particularly noteworthy. Domestic investors accounted for just 43% of the transaction volume; the lowest proportion across all top six markets. Among foreign purchasers, those from the USA were most active (approx. €600m purchase volume) followed by France (approx. €315m) and Sweden (approx. €280m).
- In view of the scarce supply of available properties in the CBD, investors increasingly shifted their attention towards the periphery of the City submarket. The majority of transactions in the high double-digit and triple-digit million Euros range took place in locations outside of the CBD. These included the sale of the Tanzende Türme, Atlantic-Haus and Millerntorplatz 1 (all in St. Pauli), as well as the northern Überseequartier in HafenCity submarket.

Commercial investment market Cologne

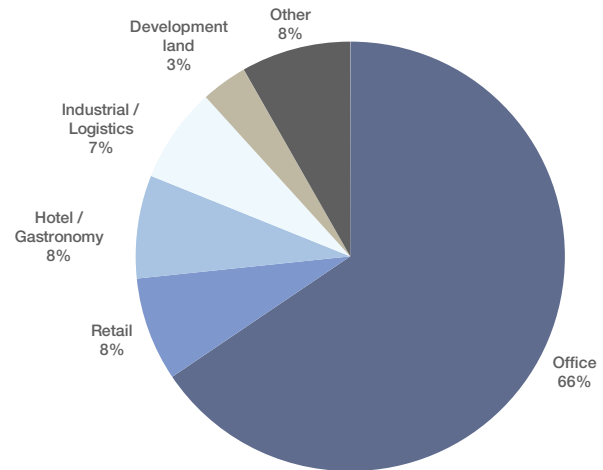
Q1-Q4 2014

GRAPH 23
Transaction volume



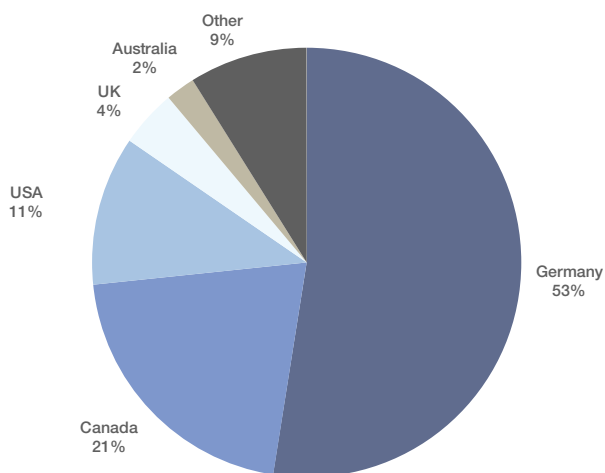
Source: Savills / * forecast

GRAPH 24
Transaction volume by sector



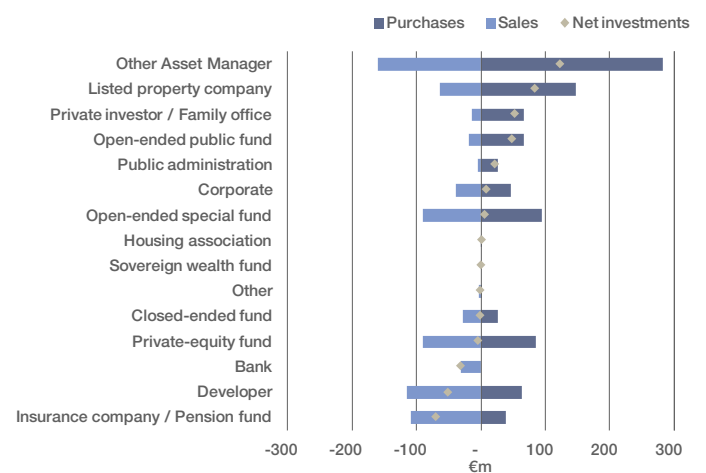
Source: Savills

GRAPH 25
Transaction volume by origin of buyer



Source: Savills

GRAPH 26
Transaction volume by type of investor



Source: Savills

Cologne market in minutes

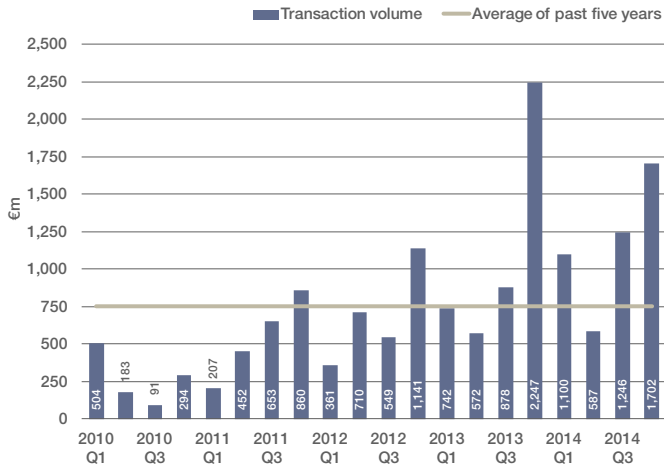
Cologne breaks the billion mark

- Investment in commercial property in Cologne totalled almost €1.1bn in 2014; an increase of 27% on the previous year. Around half of the overall volume was attributable to the final quarter.
- The largest transaction last year was the disposal of the KölnTurm by Art-Invest to Dream Global for almost €114m. All other transactions in excess of the €50m mark were also for office property, which accounted for some two thirds of the overall transaction volume. Owing to the high demand, prime office yields hardened by a further 30 basis points to 4.6% during the course of the year.
- The high proportion of North American purchasers is noteworthy. Such investors accounted for a third of the overall purchase volume last year. Nevertheless, the market was largely driven by domestic investors in 2014, who were responsible for more than half of the overall transaction volume.

Commercial investment market Munich

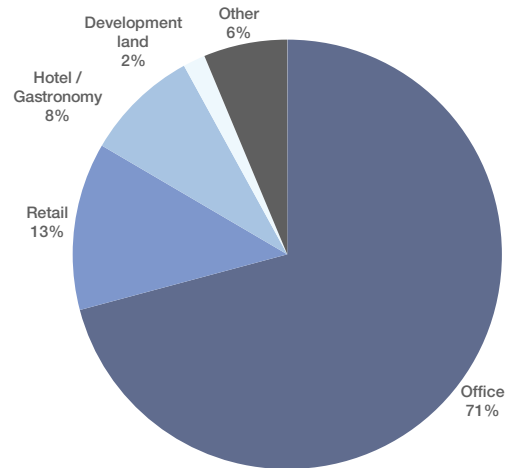
Q1-Q4 2014

GRAPH 27 Transaction volume



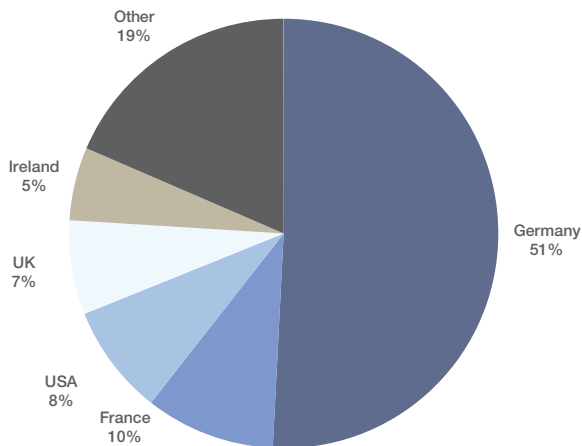
Source: Savills / * forecast

GRAPH 28 Transaction volume by sector



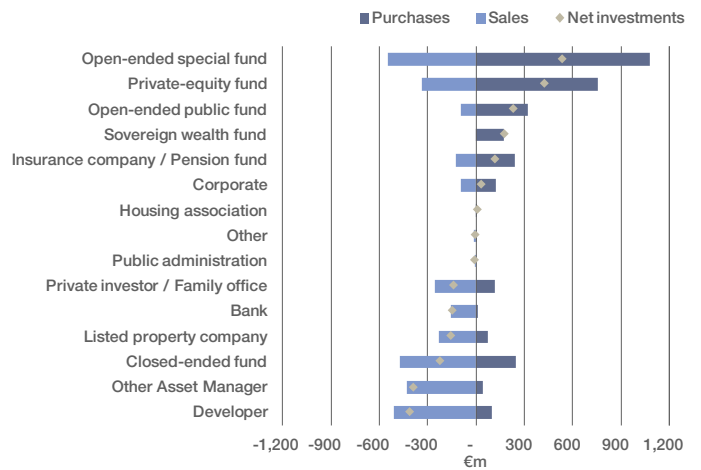
Source: Savills

GRAPH 29 Transaction volume by origin of buyer



Source: Savills

GRAPH 30 Transaction volume by type of investor



Source: Savills

Munich market in minutes

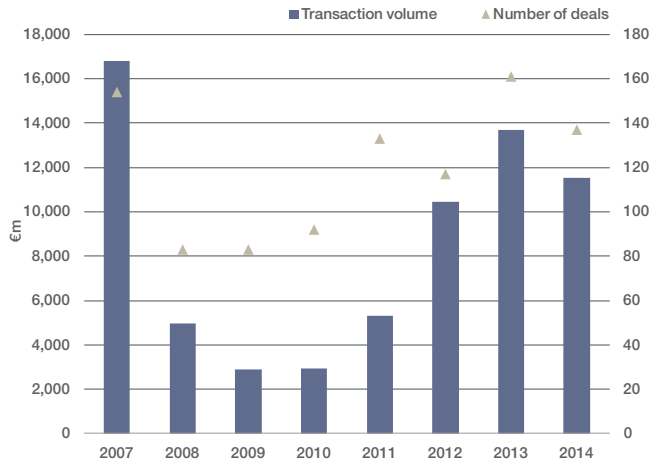
Competition among investors intensifies further - particularly for core assets

- The commercial property investment market in Munich recorded a further increase in transaction volume last year. Investment totalled more than €4.6bn, which represented a 4% increase on the previous year.
- Competition among investors grew even stronger last year, notably in the core segment. This is also reflected in price levels, which showed further moderate increases across most sectors over the course of the year despite the already high levels. Prime yields on office property stood at 4% at the end of the year; 30 basis points lower than the corresponding figure in 2013.
- Private equity funds invested almost €0.8bn, comprising the second largest purchaser group after special funds (approx. €1.1bn). These benefited from the fact that some investors used the favourable market conditions to rebalance their portfolios and dispose of properties of a value-add character.

Residential portfolio investment market Germany

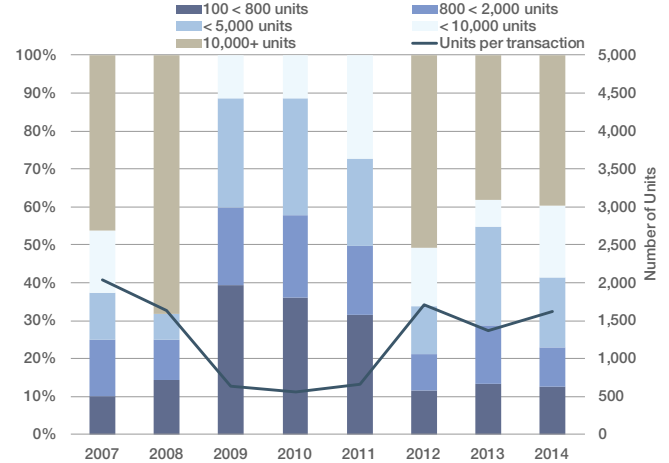
Q1-Q4 2014

GRAPH 31 Transaction volume and number of deals*



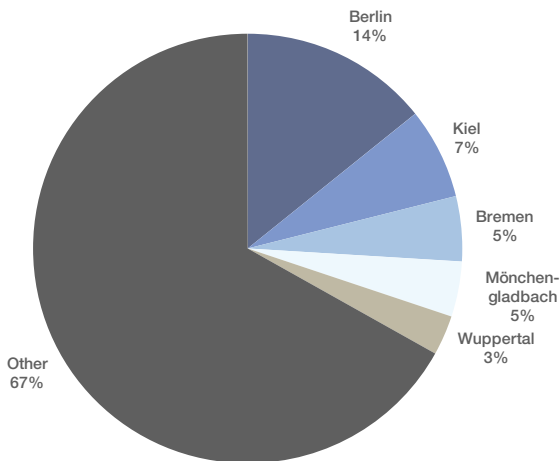
Source: Savills / * portfolios with at least 100 units each

GRAPH 32 Size of portfolios transacted



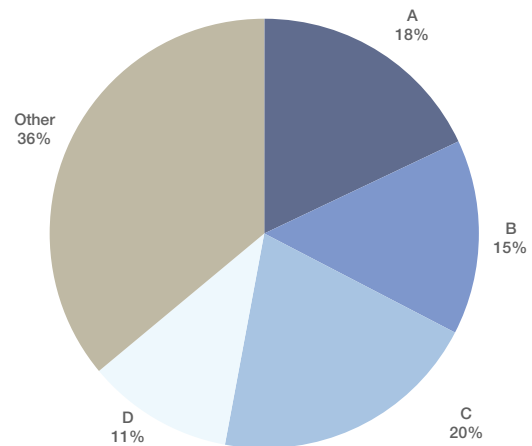
Source: Savills

GRAPH 33 Transacted units by location



Source: Savills

GRAPH 34 Transacted units by type of city*



Source: Savills / * based on the Bulwiengesa classification

German residential portfolio market in minutes

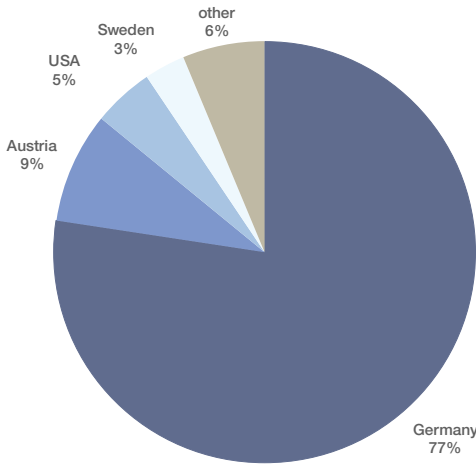
Transaction activity shifts from metropolises to smaller cities

- Investment in German residential portfolios totalled almost €12.1bn last year, representing a decrease of €2bn or 14% on 2013. However, the number of portfolios and residential units transacted remained largely stable. Overall, more than 225,800 units changed hands (2013: 223,500 units) in 201 transactions (2013: 217).
- Despite the far greater regional activity compared with previous years, Berlin was able to defend its leading position again in 2014. However, the German capital accounted for just 14% of all units transacted compared with 44% in the previous year. The other A cities also registered significantly lower proportions of market activity.
- In 2015, many of the major transactions will no longer be asset deals in the property market but will come in the form of company mergers and acquisitions in the capital markets. One such example is the impending merger of Deutsche Annington and Gagfah.

Residential portfolio investment market Germany

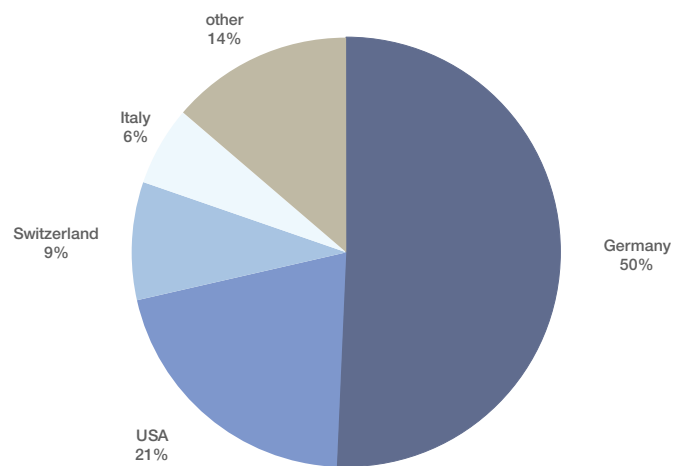
Q1-Q4 2014

GRAPH 35
Transaction volume by origin of buyer



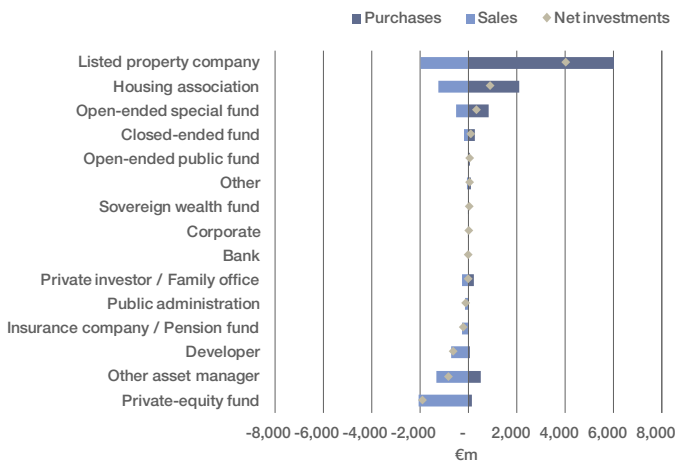
Source: Savills

GRAPH 36
Transaction volume by origin of seller



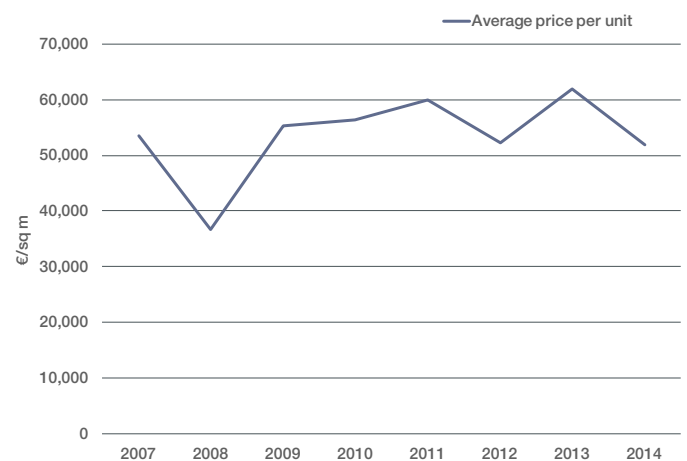
Source: Savills

GRAPH 37
Transaction volume by type of investor



Source: Savills

GRAPH 38
Development of prices*



Source: Savills / * for portfolios with at least 100 units each

TABLE 3
The largest residential portfolio transactions in 2014 at a glance*

Portfolio	Number of units	Volume	Buyer	Vendor
Vitus	ca. 30,000	approx. €1,400m	Deutsche Annington	Vitus
Dewag	ca. 11,500	approx. €970m	Deutsche Annington	Equity Residential, AvalonBay Communities
DGAG	ca. 18,000	approx. €890m	Buwog / Immofinanz	Prelios, Deutsche Asset & Wealth Management
-	ca. 9,600	approx. €480m	LEG	Deutsche Annington
-	ca. 13,300	undisclosed	Westgrund	berlinovo

Source: Savills / * only published transactions are shown

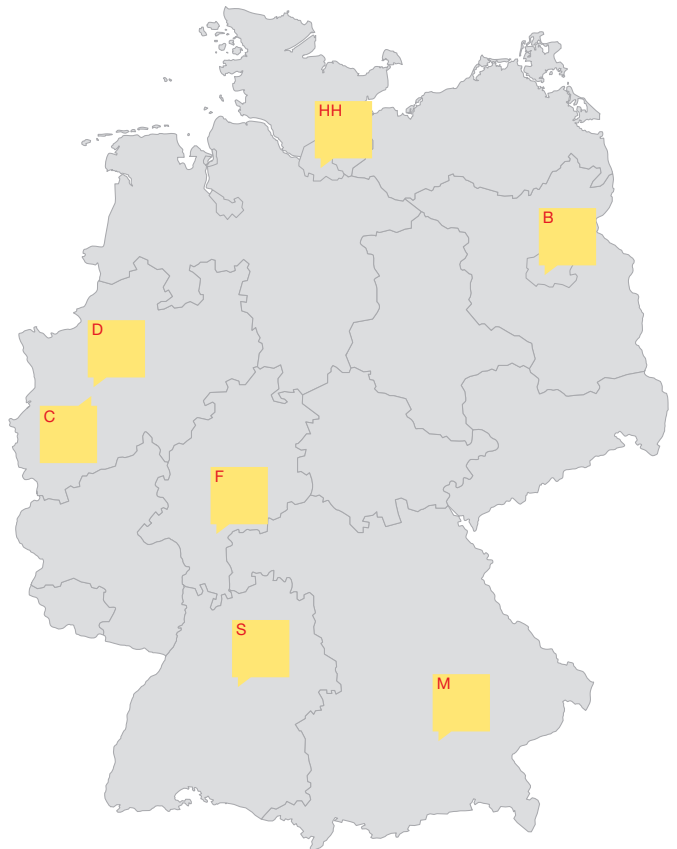
Savills Germany

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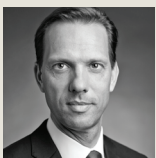
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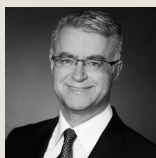


Savills Germany

Please contact us for further information



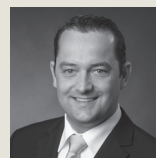
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