

Market in Minutes

Germany investment markets

Q1 2014



The facts at a glance

The rally in German commercial and residential investment markets continues

■ Almost €9.9bn was invested in German commercial property in the first quarter; an increase of 42% compared with the same quarter last year.

■ Office property accounted for almost half (42% or €4.2bn) of the overall investment volume. Retail property achieved the second highest transaction volume with some €2.5bn or 26%.

■ The highest growth compared with last year was registered by logistics/industrial property with a rise of more than 150% to approx. €1.3bn.

■ The transaction volume for commercial property portfolios doubled to €4.3bn. Among other purchasers, private equity investors, who invested a total of €1.5bn represented the purchaser group with the highest net investment volume.

■ The scarcity of core property is causing investors to increasingly shift their focus to other risk categories. Consequently, yields on B properties and/or B locations tightened markedly while prime rents remained largely stable.

■ Residential portfolios accounted for investments totalling approx. €4.9bn; three and a half times the amount invested in the same quarter last year. This surge in the transaction volume is primarily attributable to 3 major deals.

■ Transaction activity is increasingly shifting to regions outside of the metropolitan areas. The majority of residential units changed hands in Kiel and Bremen.

■ Over the entire year, we expect investment to reach at least €35bn in the commercial sector and significantly above €10bn in the residential sector.

Commercial investment market Germany

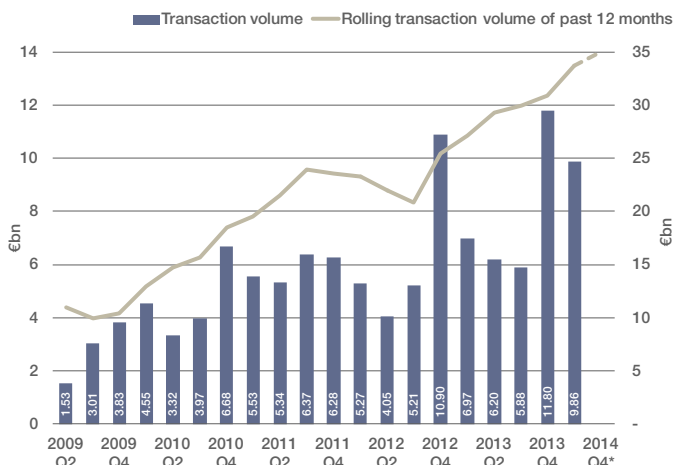
Q1 2014

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	
	Q1 2014	y-o-y change	Sector	Share	Q1 2014	Q1 2013	Q1 2014	y-o-y change	Q1 2014	y-o-y change
Berlin	590	-8%	Office	62%	64%	65%	4.7%	-10bps.	4.4%	-20bps.
Düsseldorf	512	-21%	Office	93%	19%	76%	4.6%	-30bps.	4.2%	+/-0bps.
Frankfurt	611	-29%	Office	83%	82%	73%	4.5%	-10bps.	3.7%	-10bps.
Hamburg	556	+17%	Office	53%	37%	45%	4.5%	-10bps.	4.4%	-10bps.
Cologne	282	+12%	Office	67%	61%	45%	4.9%	-10bps.	4.4%	+/-0bps.
Munich	960	+13%	Office	42%	51%	67%	4.3%	+/-0bps.	3.5%	+/-0bps.
Germany*	9,863	+42%	Office	42%	45%	62%	4.6%	-12bps.	4.1%	-7bps.

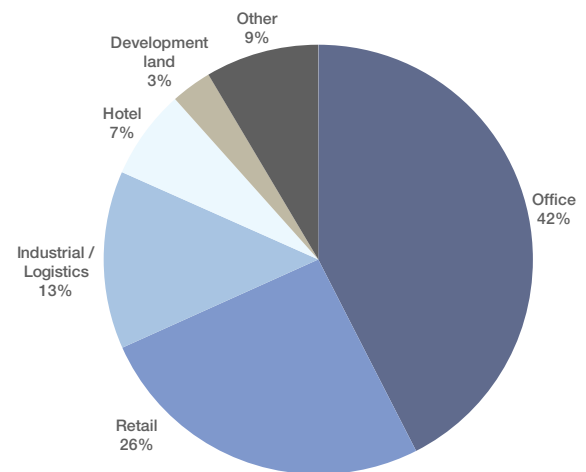
Source: Savills / * prime yields = Ø top six

GRAPH 1
Transaction volume



Source: Savills / * forecast

GRAPH 2
Transaction volume by sector



Source: Savills

German commercial investment market in minutes

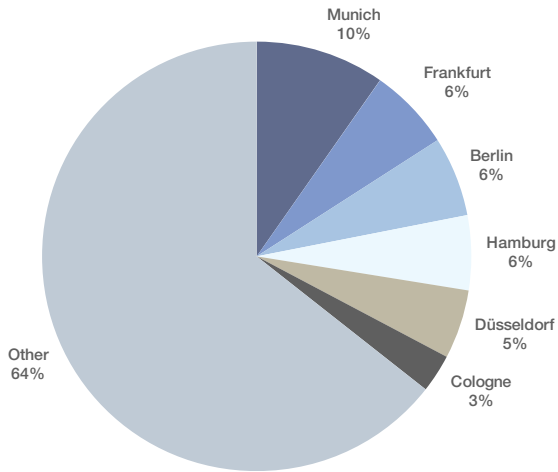
Significantly more portfolio and value-add transactions

- Commercial property transactions in the first quarter of 2014 totalled approx. €9.9bn, representing an increase of 42% compared with the same quarter last year. The transaction volume over the last 12 months now stands at €33.7bn.
- In contrast with previous years, the investment market is no longer limited to the core segment. Investors' appetite for risk, and consequently demand for non-core assets, has risen significantly.
- The significant rise in the transaction volume is primarily attributable to brisk investment activity in commercial property portfolios. These deals totalled more than €4.3bn; almost double the volume in the same quarter last year. Such portfolio transactions are a major factor in investment outside the top locations growing significantly faster than the overall transaction volume. The top six markets accounted for just 36% of investment in the first quarter (Q1 13: 54%).

Commercial investment market Germany

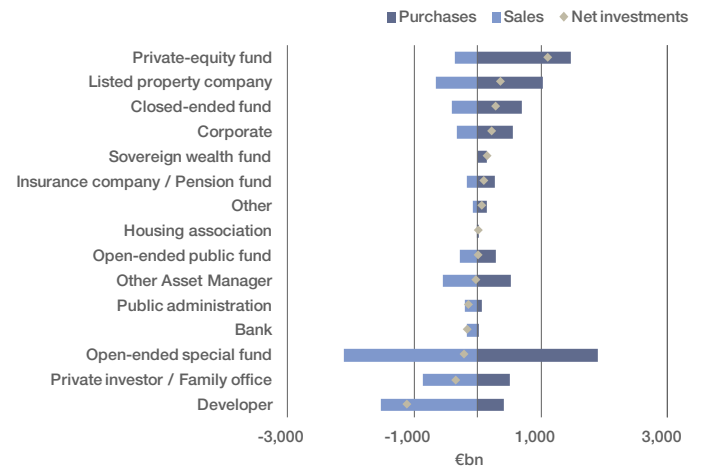
Q1 2014

GRAPH 3
Transaction volume by location



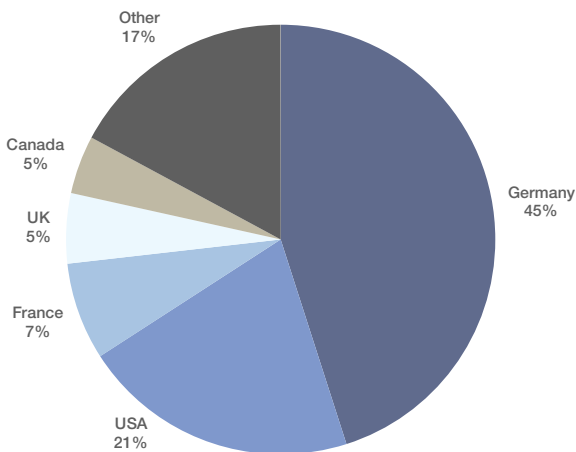
Source: Savills

GRAPH 4
Transaction volume by type of investor



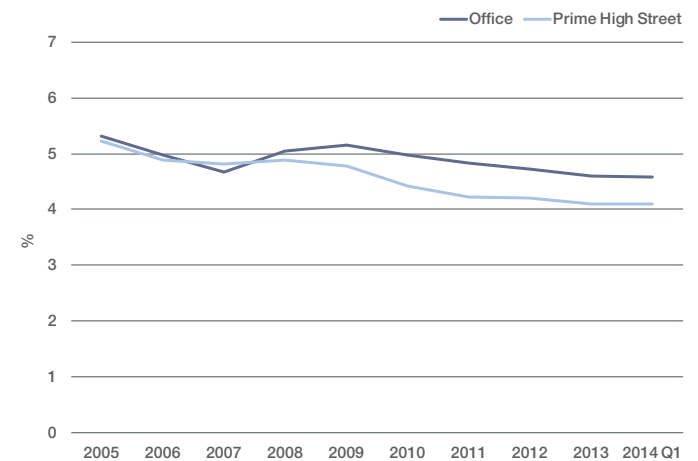
Source: Savills

GRAPH 5
Transaction volume by origin of buyer



Source: Savills

GRAPH 6
Prime yields



Source: Savills

TABLE 2
The largest transactions in Q1 2014 at a glance*

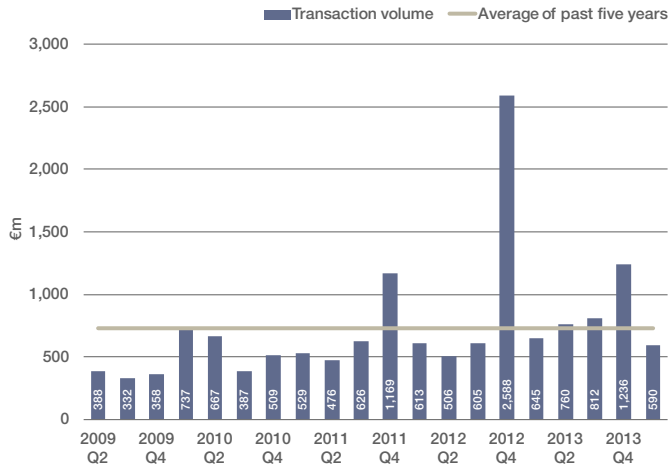
Property / Portfolio	Type of use	Location(s)	Volume	Buyer	Vendor
Leo 1 portfolio	Office	Hesse	approx. €1,000m	Patrizia	Commerz Real
Centro (50% share)	Retail	East Germany	approx. €540m	Unibail-Rodamco	Stadium Group
Shopping centre portfolio	Retail	East Germany	approx. €400m	Morgan Stanley, Redos	Prudential et al.
Portigon buildings	Office	Düsseldorf	approx. €350m	Blackstone	Portigon
Logistics portfolio	Logistics	Across Germany	approx. €300m	SELP	Tristan

Source: Savills / * only published transactions are shown

Commercial investment market Berlin

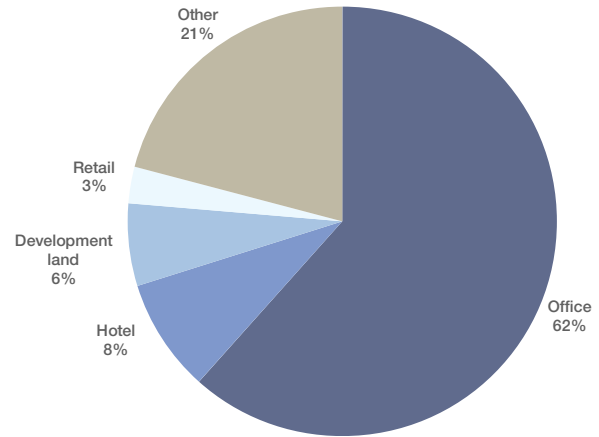
Q1 2014

GRAPH 7
Transaction volume



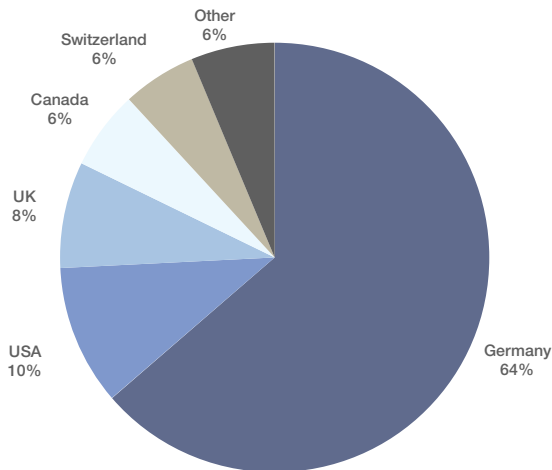
Source: Savills / * forecast

GRAPH 8
Transaction volume by sector



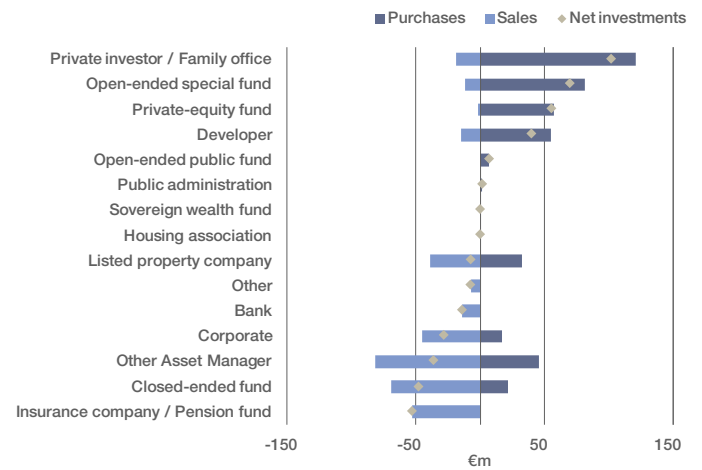
Source: Savills

GRAPH 9
Transaction volume by origin of buyer



Source: Savills

GRAPH 10
Transaction volume by type of investor



Source: Savills

Berlin market in minutes

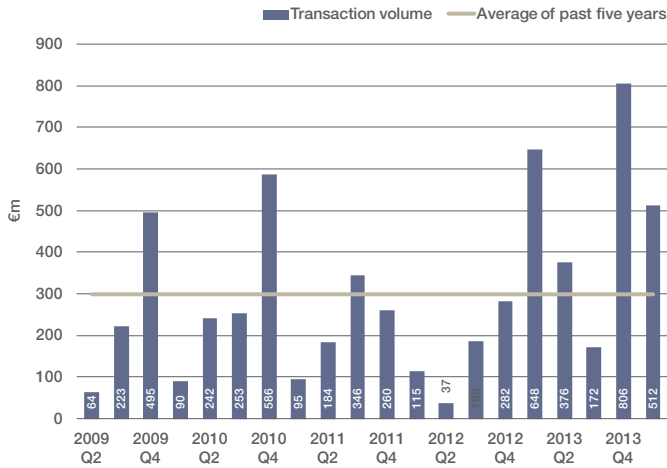
Slight decrease in investment despite rising activity in the non-core segment

- The transaction volume in the first quarter totalled €590m, representing an 8% decline in investment compared with the same quarter last year.
- This decrease is largely attributable to a lack of product, particularly in the core segment, which continues to receive the highest demand. The Hackesches Quartier was the only larger property to change hands in this segment.
- In contrast, demand for property with upside potential is matched by a large supply, resulting in significantly more transactions for such properties than in the prime segment in recent months. Office property in good B locations with letting potential is increasingly coming into focus at present and vendors are achieving significantly higher prices compared with two years ago. Net initial yields achievable on secondary offices in B locations therefore tightened slightly further to 7.0%; a fall of some 50 basis points year on year.

Commercial investment market Düsseldorf

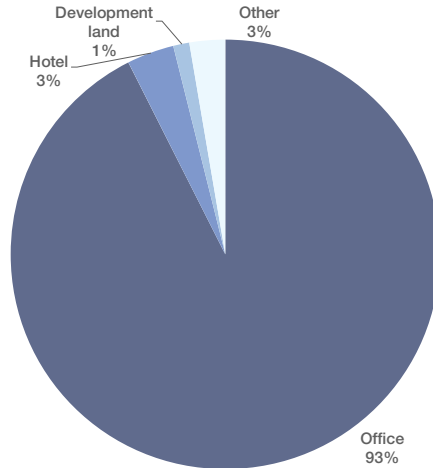
Q1 2014

GRAPH 11 Transaction volume



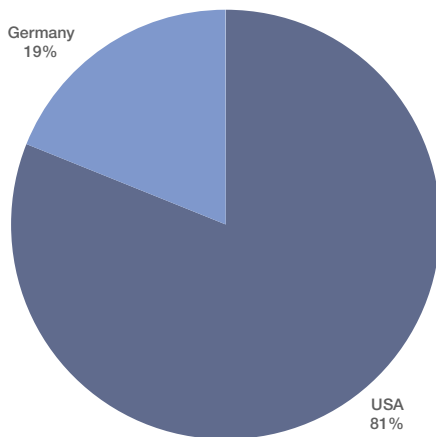
Source: Savills / * forecast

GRAPH 12 Transaction volume by sector



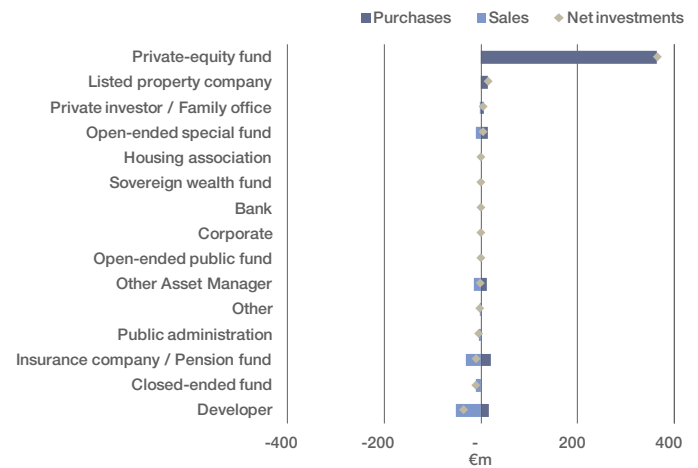
Source: Savills

GRAPH 13 Transaction volume by origin of buyer



Source: Savills

GRAPH 14 Transaction volume by type of investor



Source: Savills

Düsseldorf market in minutes

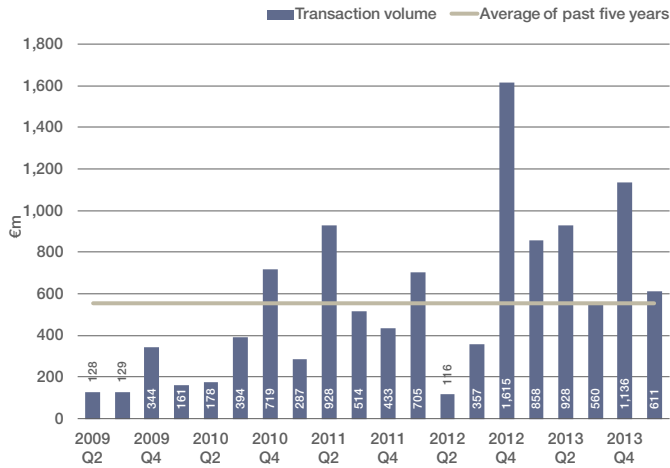
Value-add investments dominate the start to the year

- The transaction volume in the first three months totalled more than €500m, which was 21% lower than in the same period last year (€648m).
- In contrast, the number of properties changing hands increased. Deals were completed on 17 properties in the first quarter compared with just 13 in the same quarter last year. Consequently, the average transaction size fell from almost €50m to €30m.
- Another difference compared with last year is that the market is no longer dominated by core assets, such as the Kö-Bogen, but rather by value-add properties such as New Fashion Plaza or the mixed-use property at Immermannstraße 51-53. Since investors' increased appetite for risk is met with a broad-ranging supply in this segment, 2014 is also expected to be a strong year in terms of investment volume.

Commercial investment market Frankfurt

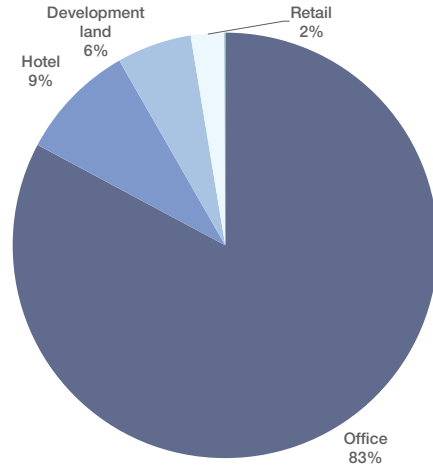
Q1 2014

GRAPH 15
Transaction volume



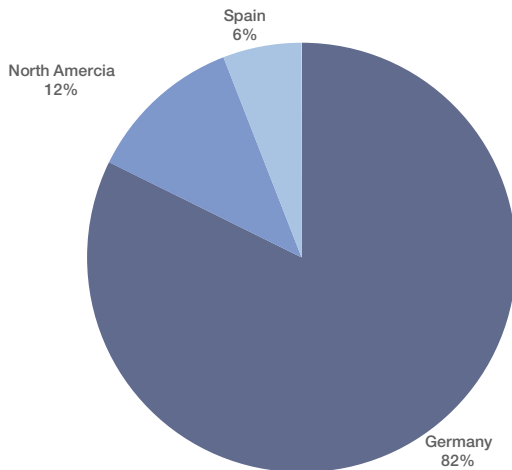
Source: Savills / * forecast

GRAPH 16
Transaction volume by sector



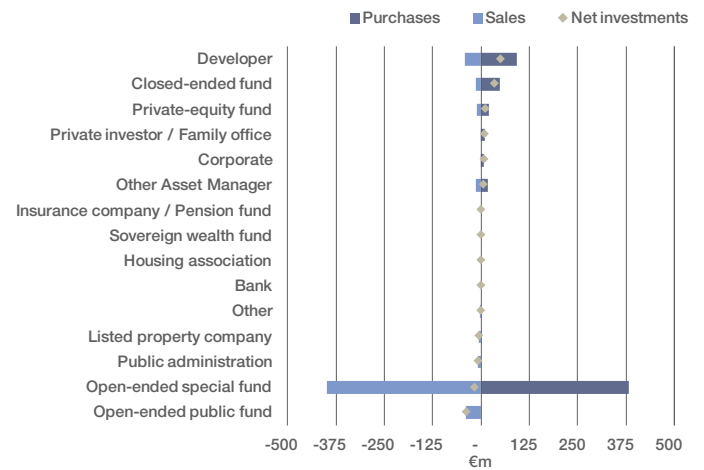
Source: Savills

GRAPH 17
Transaction volume by origin of buyer



Source: Savills

GRAPH 18
Transaction volume by type of investor



Source: Savills

Frankfurt market in minutes

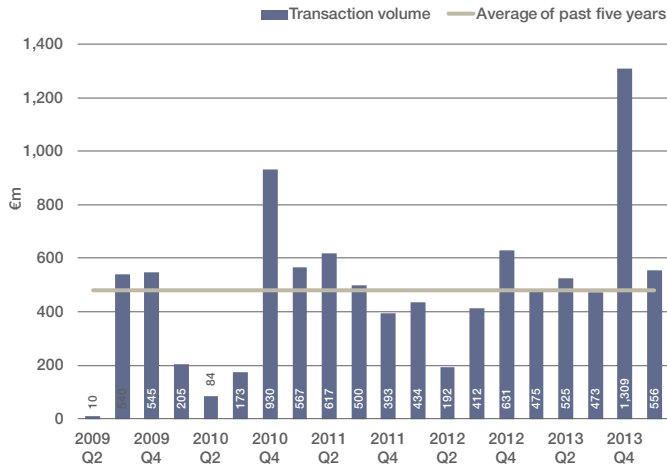
Shortage of product remains the limiting factor for transactions

- More than €600m was invested in Frankfurt commercial property in the first quarter of 2014. This investment volume is 29% lower than in the first quarter last year but 15% higher than the average quarterly volume over the last five years.
- Faced with the lack of supply in the core segment, investors are shifting their focus to other product groups in the market. Risk-averse investors are demonstrating increasing interest in forward deals, potentially in conjunction with forward funding, and are also prepared to purchase developments at a very early stage.
- Demand for properties with upside potential is also high and rising further. The conversion of commercial properties to residential use continues to be a prominent trend. However, properties also continue to be purchased with the intention of refurbishment while retaining the existing use.

Commercial investment market Hamburg

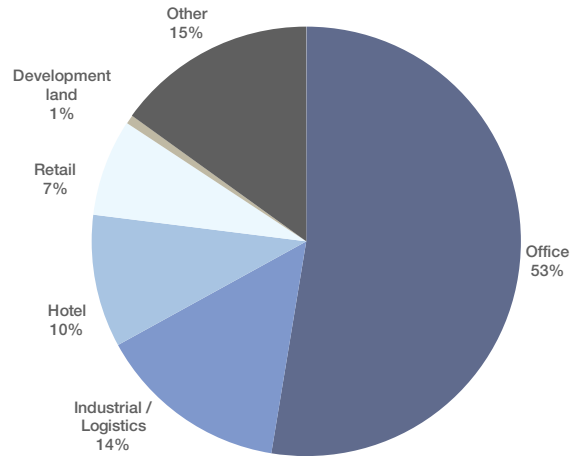
Q1 2014

GRAPH 19 Transaction volume



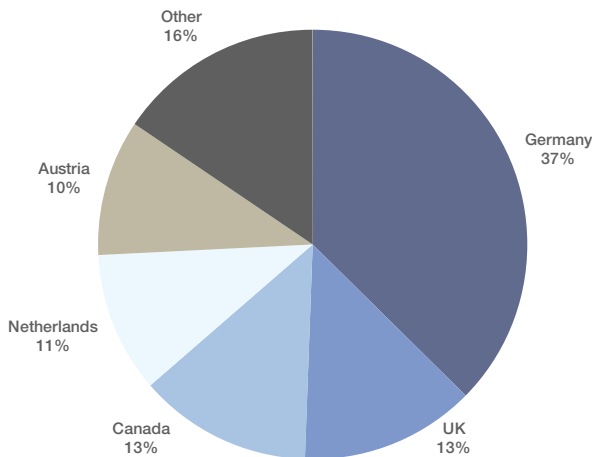
Source: Savills / * forecast

GRAPH 20 Transaction volume by sector



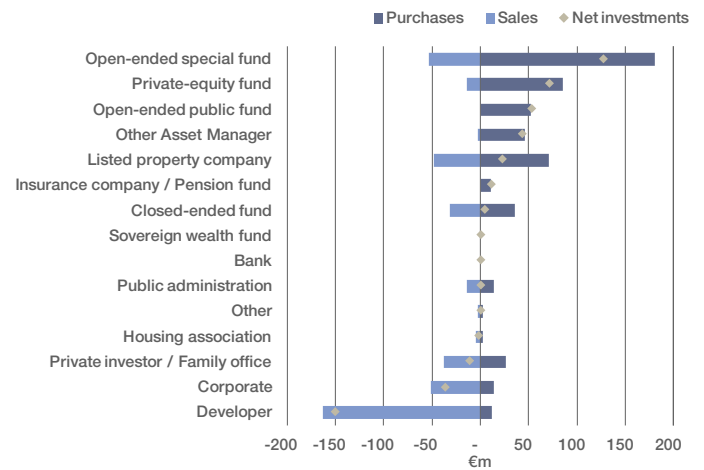
Source: Savills

GRAPH 21 Transaction volume by origin of buyer



Source: Savills

GRAPH 22 Transaction volume by type of investor



Source: Savills

Hamburg market in minutes

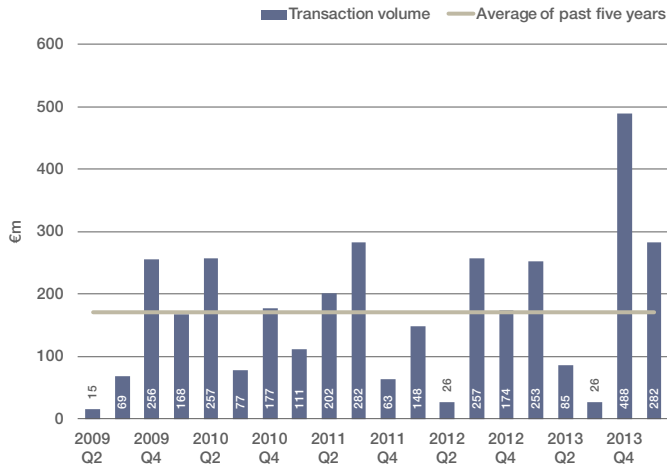
Significant rise in sales of retail and logistics property

- Some €550m was invested during the first three months of the current year, representing a 17% increase in investment compared with the same quarter last year.
- The most significant increases compared with last year were seen in the logistics/industrial sector (+116%) and the retail sector (+41%). One reason for the decline in investment in office property (-10%) is the lack of product that matches investors' search criteria.
- Even the value-add segment has seen relatively few transactions to date. This is partly attributable to the fact that landlords' sale price expectations are often still too high or that the properties offered for sale are lacking in clearly identifiable value-add potential. However, the number of completed deals is still expected to rise over the coming months.

Commercial investment market Cologne

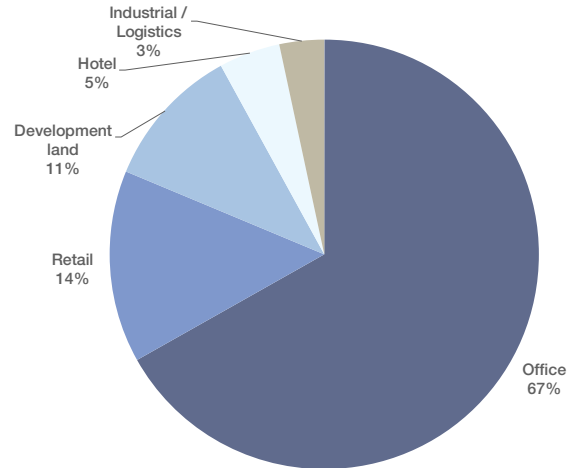
Q1 2014

GRAPH 23
Transaction volume



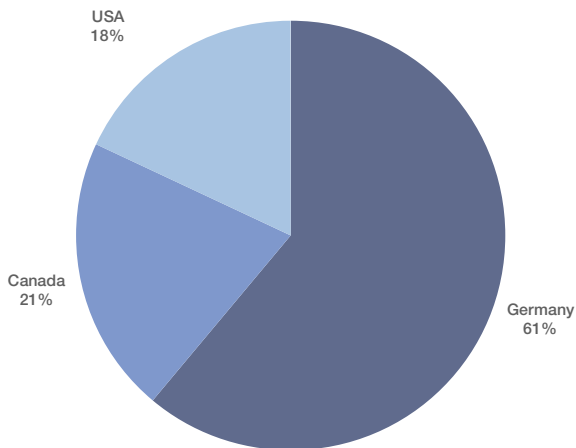
Source: Savills / * forecast

GRAPH 24
Transaction volume by sector



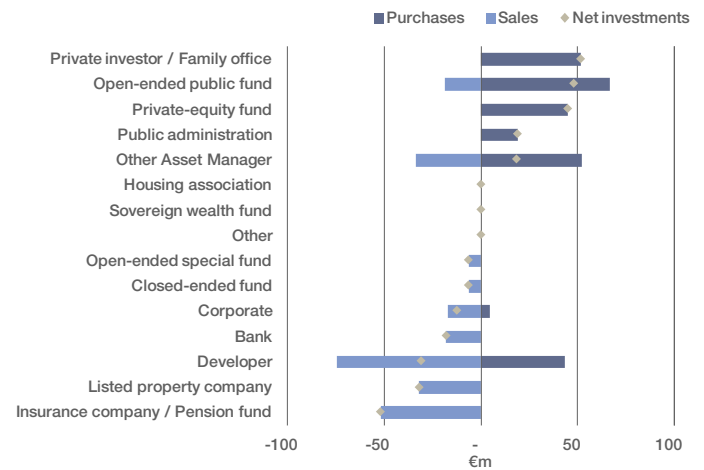
Source: Savills

GRAPH 25
Transaction volume by origin of buyer



Source: Savills

GRAPH 26
Transaction volume by type of investor



Source: Savills

Cologne market in minutes

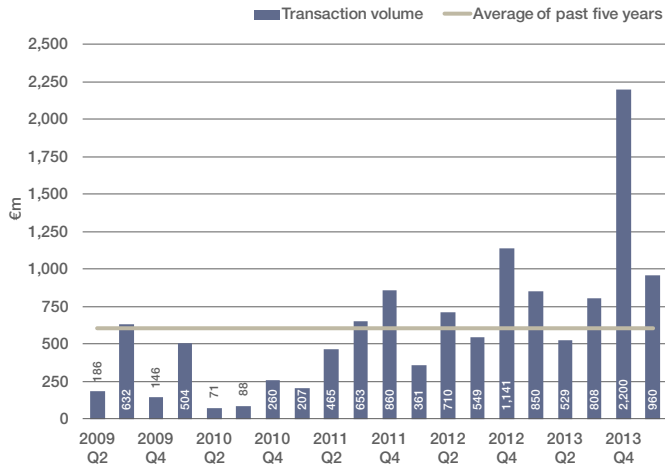
Developers make significant acquisitions - a sign of a healthy market

- The transaction volume in Cologne reached some €280m during the first three months of the year; an increase of 12% compared with Q1 13.
- Overall, 19 properties changed hands, 10 of which were sold as part of portfolios. Since the purchasers of such portfolios were often private equity investors, these were among the largest purchaser groups in the first quarter with a purchase volume of approx. €45m. Three other investor groups were even more active, namely open-ended public funds (approx. €67m), private investors and other asset managers (approx. €52m each).
- Development sites accounted for a significant proportion of the transaction volume (11%) while there were also numerous acquisitions of existing buildings which the purchasers intend to refurbish or even demolish before replacing with new properties.

Commercial investment market Munich

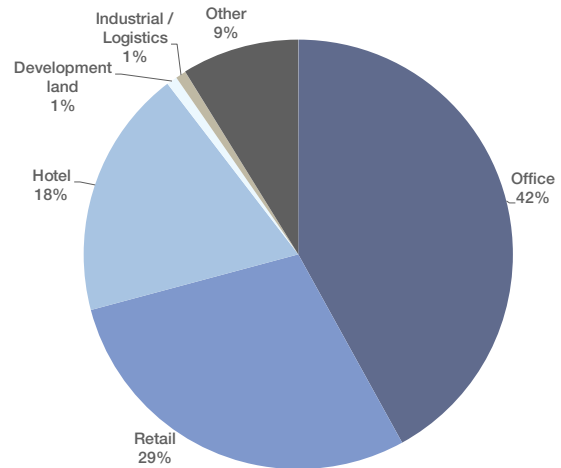
Q1 2014

GRAPH 27
Transaction volume



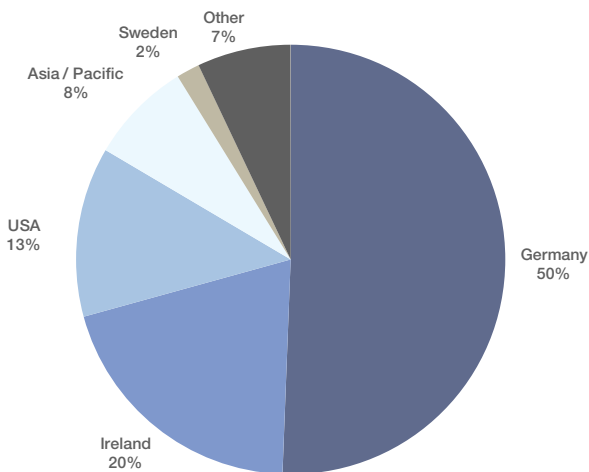
Source: Savills / * forecast

GRAPH 28
Transaction volume by sector



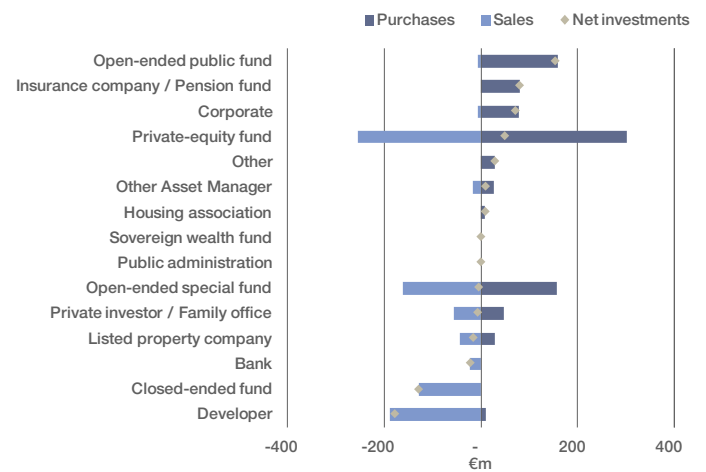
Source: Savills

GRAPH 29
Transaction volume by origin of buyer



Source: Savills

GRAPH 30
Transaction volume by type of investor



Source: Savills

Munich market in minutes

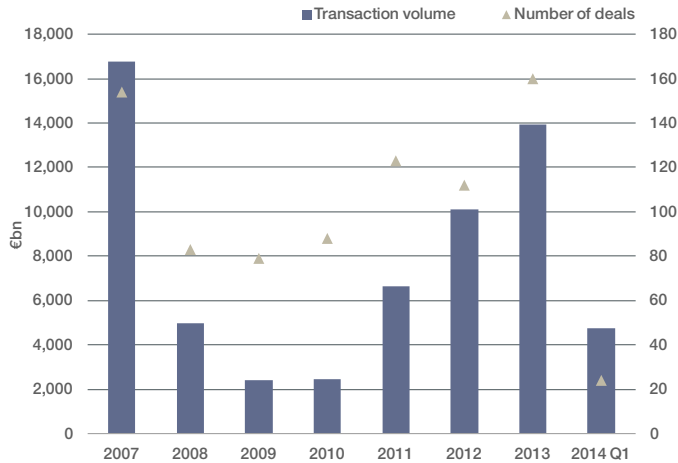
Strongest quarter for investment in five years

- The first quarter of the year saw investment totalling almost €960m in commercial property in Munich; significantly more than in any other German city during the period. The transaction volume rose 13% compared with an already strong first quarter last year.
- One consequence of the large investor demand for property in Munich combined with increasingly short supply in the core segment is the fact that investors are increasingly prepared to accept shortcomings in terms of the quality of property or location. In line with the second half of 2013, there were also a number of transactions outside of the core segment in the first three months of the current year.
- The higher demand means that owners of secondary or tertiary assets are now finding investors for their properties significantly more easily. However, it remains the case that they must often lower their price expectations.

Residential portfolio investment market Germany

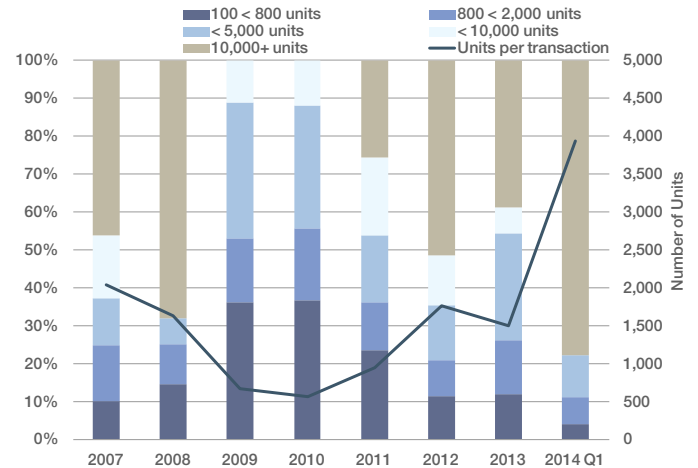
Q1 2014

GRAPH 31
Transaction volume and number of deals*



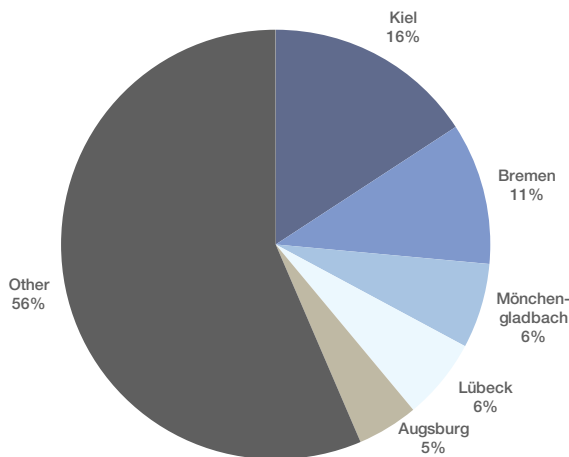
Source: Savills / * portfolios with at least 100 units each

GRAPH 32
Size of portfolios transacted



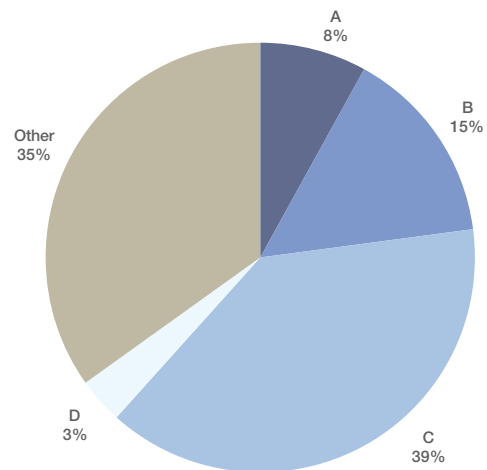
Source: Savills

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

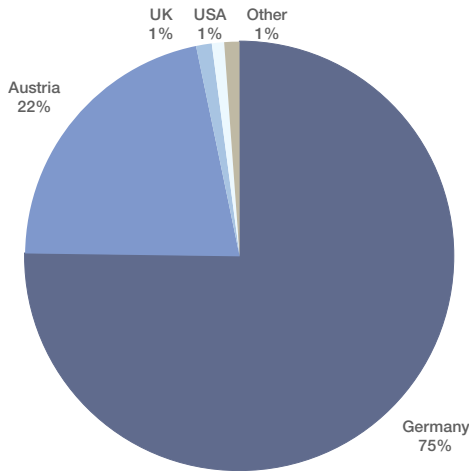
Smaller cities come into focus - full-year investment volume > €10bn

- German residential portfolios (comprising some 95,500 residential units) accounted for a transaction volume of approx. €4.9bn in the first quarter of 2014; three and a half times the amount invested in the same quarter last year. Two thirds of the investment volume for the quarter was attributable to the three largest transactions.
- Two trends from last year also continued into Q1 14. Firstly, the German residential property stock is migrating from foreign investors to domestic owners and, secondly, an increasing proportion of this stock is listed and tradable on the stock exchange.
- However, a further trend, which has only emerged in recent months, is the stronger participation of cities outside the major conurbations in the current residential investment boom. Berlin, on the other hand, dropped out of the top five locations by investment volume for the first time in several years. Against a background of the impending rental cap, investment outside of the strained residential markets is becoming increasingly attractive.

Residential portfolio investment market Germany

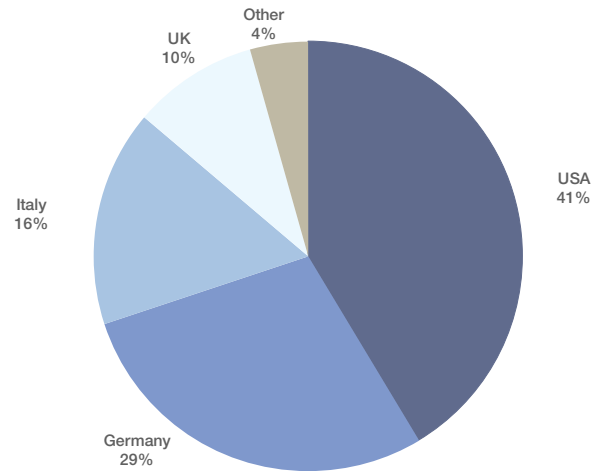
Q1 2014

GRAPH 35
Transaction volume by origin of buyer



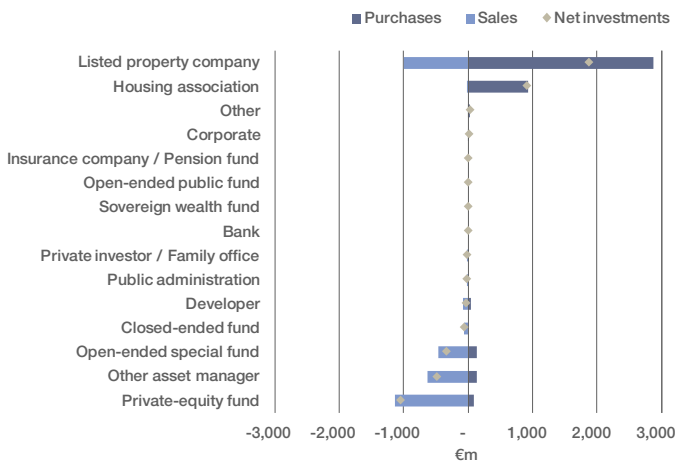
Source: Savills

GRAPH 36
Transaction volume by origin of seller



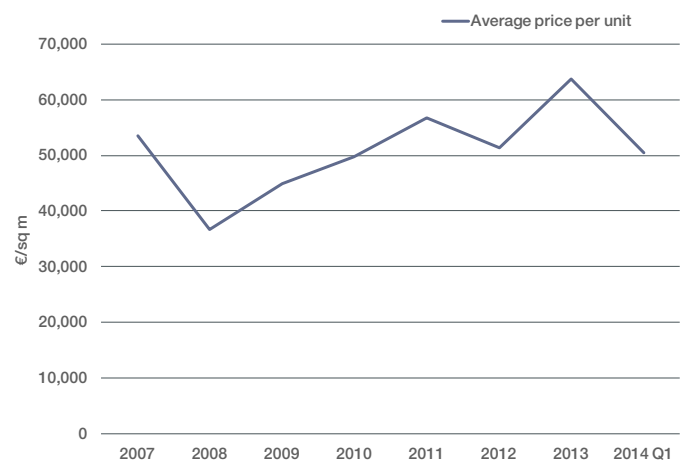
Source: Savills

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 Q1 2014 at a glance*

Portfolio	Number of units	Volume*	Buyer	Vendor
Vitus	ca. 30,000	€1,400m	Deutsche Annington	Vitus
Dewag	ca. 11,500	€970m	Deutsche Annington	Equity Residential, AvalonBay Communities
DGAG	ca. 18,000	€892m	Buwog / Immobilienfinanz	Prelios, Deutsche Asset & Wealth Management
-	ca. 4,300	€160m	Estavis	Unknown
-	ca. 4,000	€121m	TAG	Unknown

Source: Savills / * only published transactions are shown

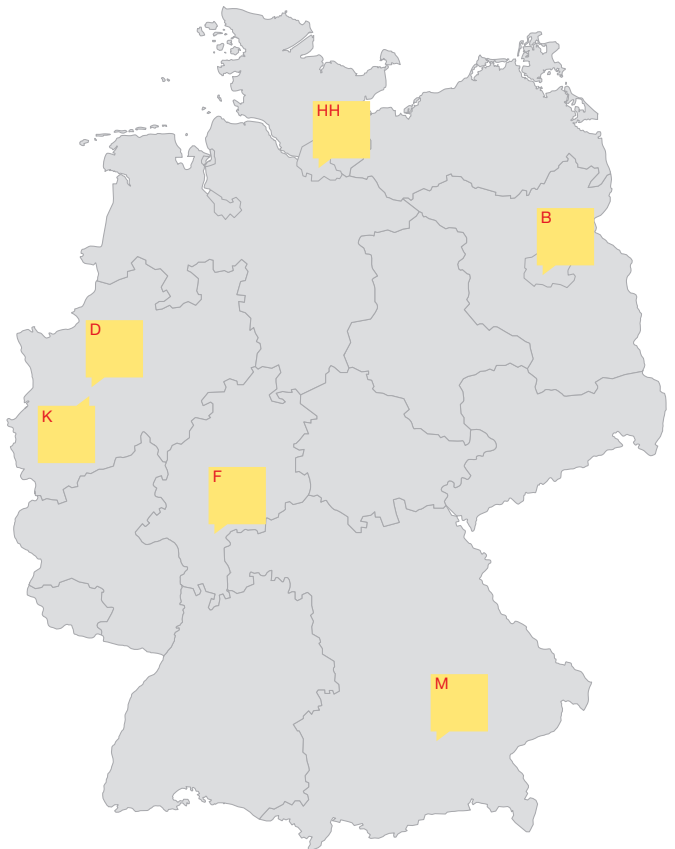
Savills Germany

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Our services

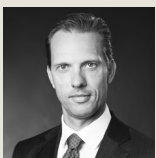
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- » Corporate Finance - Valuation
- » Leasing of office and retail buildings
- » Leasing and sale of industrial and warehouse properties
- » Corporate Real Estate Services

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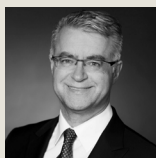


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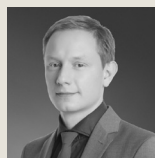
Please contact us for further information



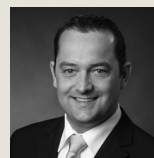
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