

Market in Minutes

Germany investment markets

Q2 2015



The facts at a glance

Heading for new records? Residential: yes! Commercial: maybe.

■ Despite talk of a 'Grexit' and interest rate rises, the boom in the German real estate investment market did not show any signs of slowing in the 2nd quarter of 2015 and even accelerated somewhat further. Almost €40bn was invested in commercial property and residential portfolios during the first half of the year.

■ The transaction volume for commercial property totalled €23.8bn - an increase of one third compared to H1 2014. Residential portfolios accounted for investment totalling €15.9bn during the same period (+105% compared with H1 2014).

■ With the German economy remaining extremely healthy despite the volatility in the financial markets and concerns surrounding Greece, demand for German commercial property remains very high. Furthermore, a glance at the individual sectors illustrates that the economic impetus is increasingly attributable to German consumers. More than €9.5bn was invested in retail property during the first half of the year, relegating office property into second place.

■ In the residential portfolio market, Deutsche Annington is the dominant player. The company's acquisitions of Gagfah and Südewo represented the two largest transactions of the first half of 2015.

■ The ongoing low interest rate environment combined with increased volatility in the equity and bond markets is likely to mean sustained high levels of investment activity. Consequently, the residential market will end the year with a new record transaction volume and the 2007 record in the commercial market could also be surpassed.

Commercial investment market Germany

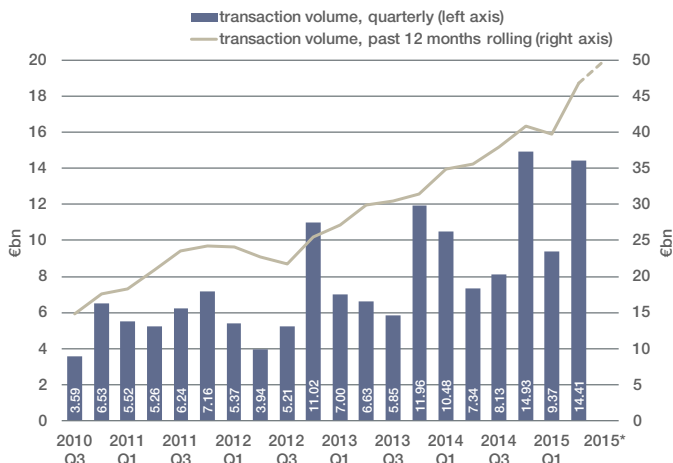
+++ Transaction volume +33% | Share of domestic investors decreases to 43% +++

TABLE 1
Key investment market figures

	Transaction volume (€m)				Share of domestic investors		Office prime net initial yield		High street prime net initial yield	
	H1 2015	y-o-y change	12 months rolling	q-o-q change	12 months rolling	q-o-q change	Q2 2015	q-o-q change	Q2 2015	q-o-q change
Berlin	2,855	+137%	5,941	+19%	44%	+2%	4.1%	-10bps	3.7%	-10bps
Düsseldorf	694	-43%	1,336	-10%	56%	-29%	4.1%	-10bps	3.8%	+/-0bps
Frankfurt	2,689	+151%	6,214	+22%	55%	+2%	4.1%	-20bps	3.5%	+/-0bps
Hamburg	1,784	+39%	3,814	+4%	38%	-12%	4.1%	-10bps	4.0%	-20bps
Cologne	694	+65%	1,651	+39%	32%	+/-0%	4.4%	-10bps	4.1%	-10bps
Munich	2,569	+51%	5,189	+50%	40%	-15%	3.8%	-10bps	3.5%	+/-0bps
Stuttgart	658	+18%	1,001	+2%	51%	+19%	4.5%	+/-0bps	4.2%	+/-0bps
Germany*	23,781	+33%	46,846	+18%	43%	-9%	4.2%	-10bps	3.8%	-6bps

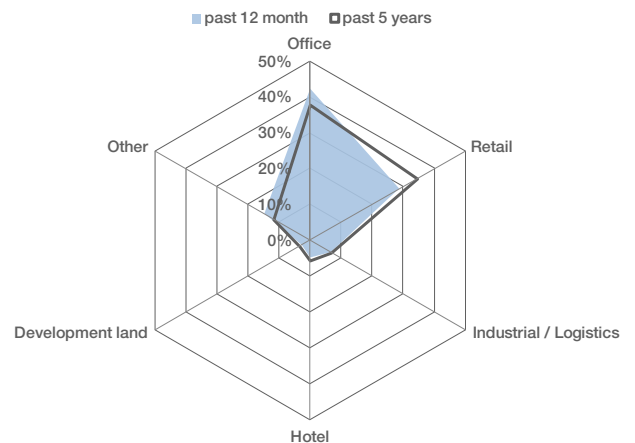
Source: Savills / * prime yields = average of Top 7 markets

GRAPH 1
Transaction volume



Source: Savills / * forecast

GRAPH 2
Transaction volume by sector



Source: Savills

German commercial investment market in minutes

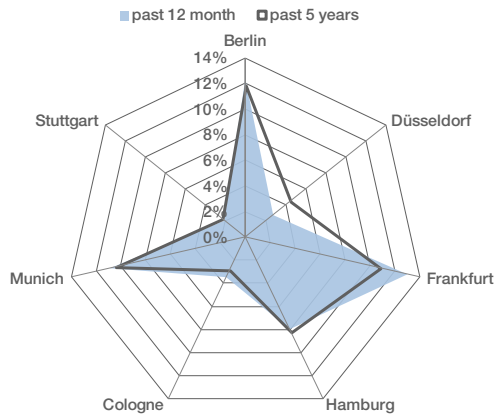
Super-cycle reaches new high

- The transaction volume for German commercial property totalled €46.8bn during the 12 months to June 2015, representing an increase of 18% compared with the 12-month volume to March 2015.
- High pressure to invest was not least responsible for investment activity increasingly shifting towards larger transactions. The first half of 2015 witnessed almost fifty deals for more than €100m. This was more than twice the amount completed in the first half of the previous year, and the trend is likely to continue.
- Against a background of continued low interest rates and increased volatility in the equity and bond markets, investors may feel compelled to increase allocations to real estate yet further within their portfolios. In any event, the transaction volume is likely to reach €50bn by the end of the year and may even surpass the record volume of €55bn, which was set in 2007.

Commercial investment market Germany

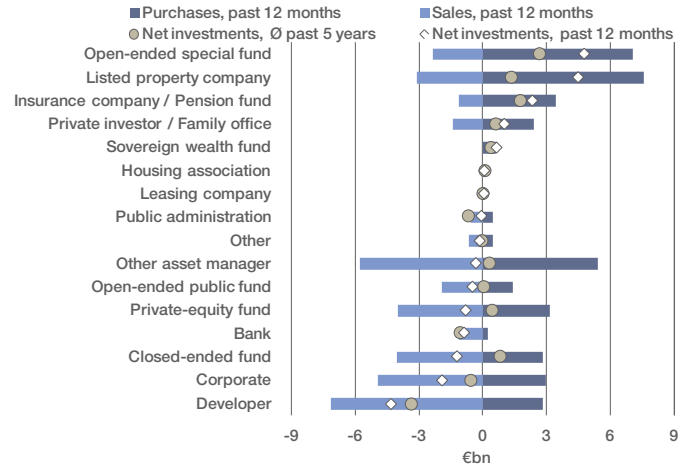
+++ Special funds largest net investors | Prime yields moved in further +++

GRAPH 3
Transaction volume by location



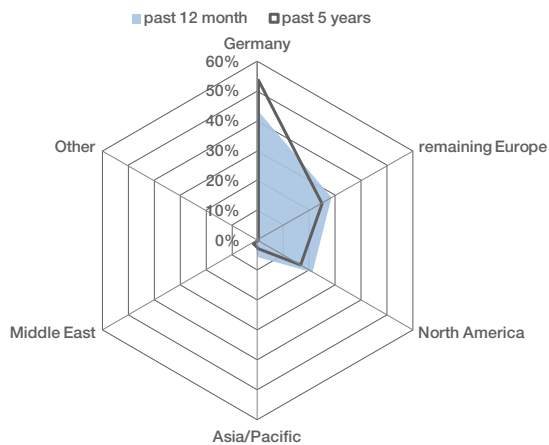
Source: Savills / * share of other locations 47% (past 12 months) and 49% (past 5 years) resp.

GRAPH 4
Transaction volume by type of investor



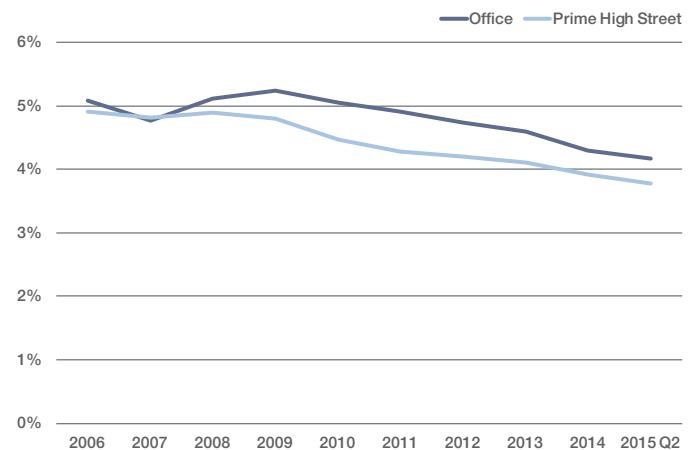
Source: Savills

GRAPH 5
Transaction volume by origin of buyer



Source: Savills

GRAPH 6
Prime yields



Source: Savills

TABLE 2
The largest transactions in Q2 2015 at a glance*

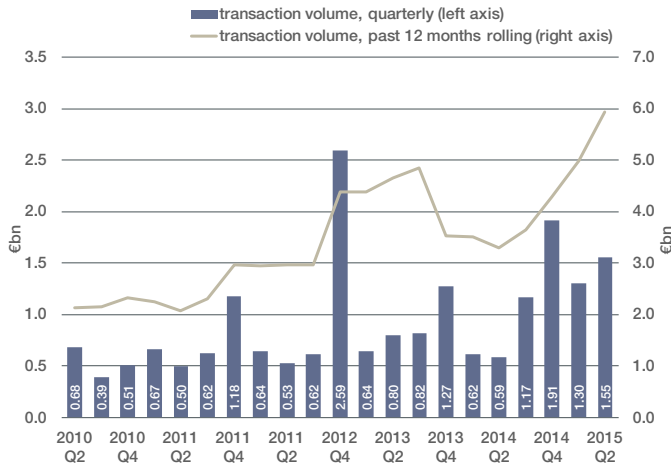
Property / Portfolio	Type of use	Location(s)	Volume	Buyer	Vendor
Kaufhof portfolio	Retail	across Germany	approx. €2,400m	HBC / Simon Properties	HBC
Odin portfolio	Office	across Germany	approx. €625m**	Orion Capital Managers	Credit Suisse
Trianon	Office	Frankfurt	approx. €540m	Northstar	Madison Real Estate / Morgan Stanley
Eurotower	Office	Frankfurt	approx. €480m	IVG	RFR
mfi interest share	Retail	across Germany	approx. €394m	CPPIB	Unibail-Rodamco

Source: Savills / * only published transactions are shown / ** latest market value

Commercial investment market Berlin

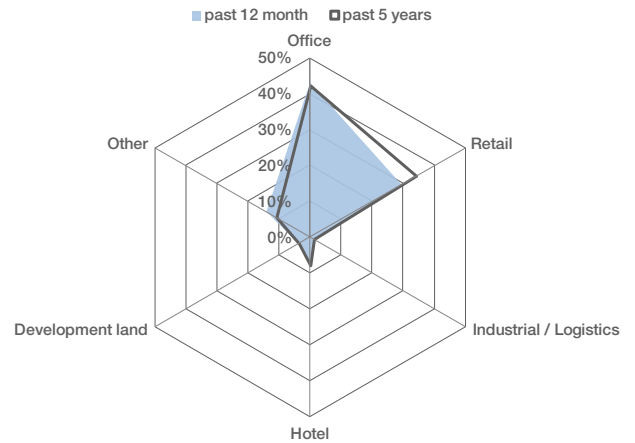
+++ Transaction volume 12M +19% | Prime office yield with 10 bps. decrease +++

GRAPH 7 Transaction volume



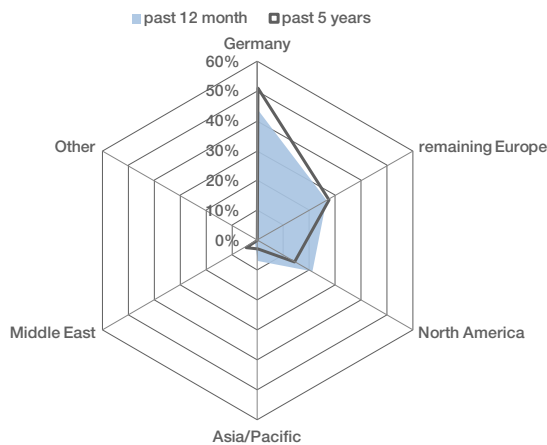
Source: Savills

GRAPH 8 Transaction volume by sector



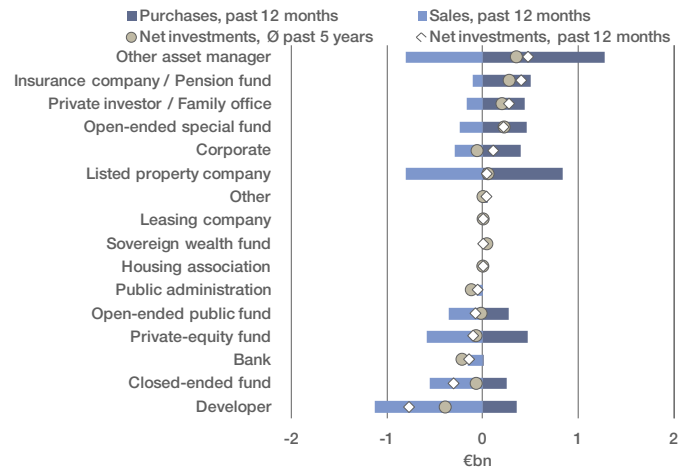
Source: Savills

GRAPH 9 Transaction volume by origin of buyer



Source: Savills

GRAPH 10 Transaction volume by type of investor



Source: Savills

Berlin market in minutes

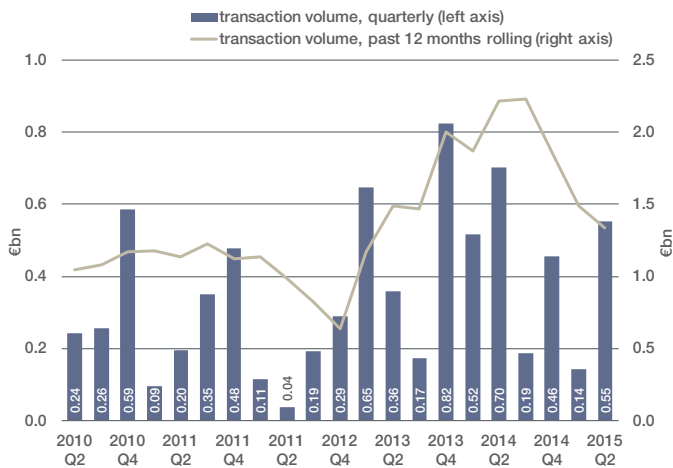
Berlin establishes itself as the investment capital

- Almost €6bn was invested in commercial property in the German capital during the 12 months to June 2015. This represents an increase of 19% on the 12-month volume to the end of the first quarter.
- Compared with the other top markets in Germany, investment in Berlin is more focused on B and C locations. This is reflected in the three largest office transactions of the first half-year: the acquisition of Stettiner Carree near the Nordbahnhof railway station by Allianz, the purchase of the Deutsche-Bank-Campus at Ernst-Reuter-Platz by DAWM and the acquisition of an office complex in Lichtenberg by I-Reit Global.
- Since foreign investors in particular are still seeking investment opportunities in Berlin and a number of major transactions are still pending completion, the second half of the year is likely to see a similar level of investment activity to the first, resulting in a transaction volume of at least €6bn for 2015.

Commercial investment market Düsseldorf

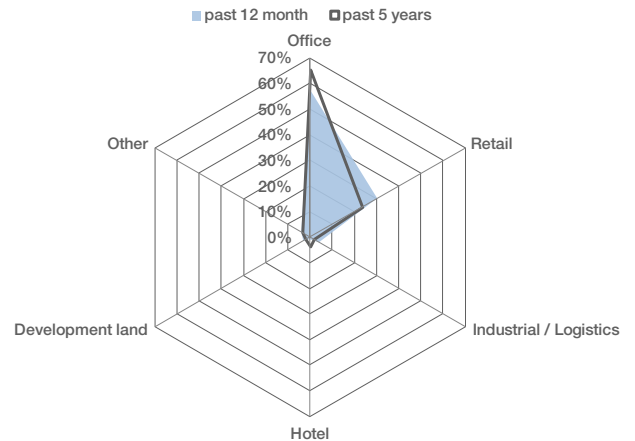
+++ Transaction volume 12M -10% | Prime office yield with 10 bps. decrease +++

GRAPH 11 Transaction volume



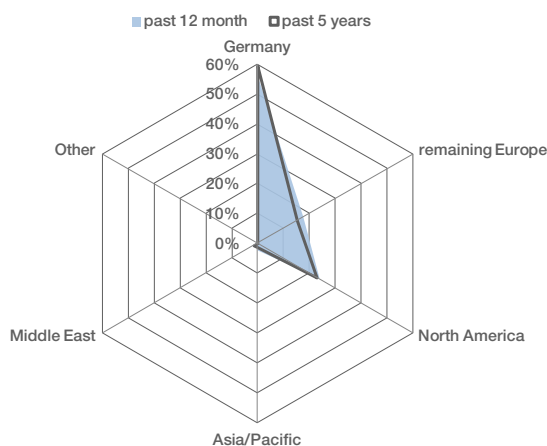
Source: Savills

GRAPH 12 Transaction volume by sector



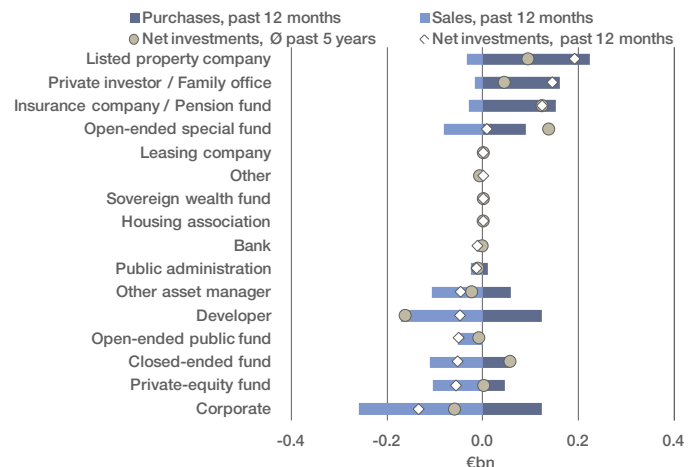
Source: Savills

GRAPH 13 Transaction volume by origin of buyer



Source: Savills

GRAPH 14 Transaction volume by type of investor



Source: Savills

Düsseldorf market in minutes

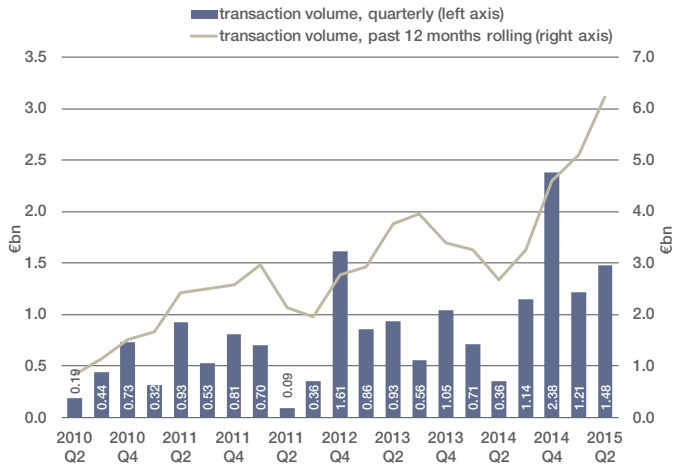
Scarcity of large core assets causes decline in transaction volume

- The 12-month transaction volume to the end of June in Düsseldorf totalled approx. €1.3bn, representing a decrease of 10% compared with the corresponding figure to the end of the first quarter.
- Düsseldorf was the only top-six investment market to register a decline in its transaction volume, which was primarily attributable to a lack of transactions above €100m. Faced with a scarcity of such properties on the market, particularly in investors' preferred core segment, investors are increasingly shifting their attention to smaller deals.
- Düsseldorf's B locations are also benefiting from investors extending their search profiles to ABBA strategies. Furthermore, investors are increasingly prepared to pay higher prices for good opportunities in such locations. As a result, secondary locations are expected to witness stronger yield compression than the prime segment over the remainder of the year.

Commercial investment market Frankfurt

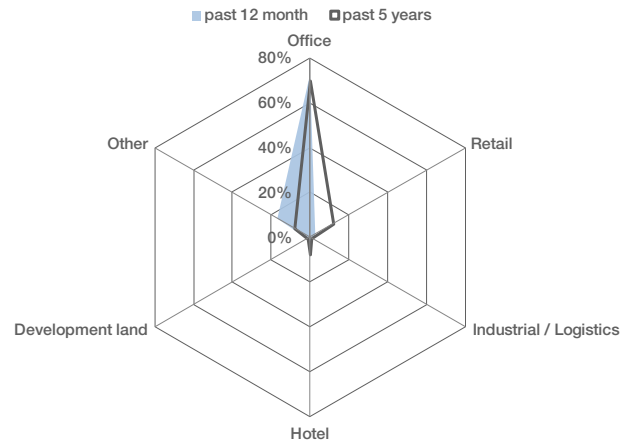
+++ Transaction volume 12M +22% | Prime office yield with 20 bps. decrease +++

GRAPH 15 Transaction volume



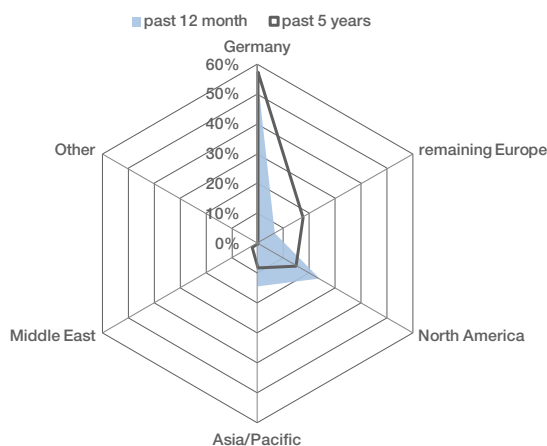
Source: Savills

GRAPH 16 Transaction volume by sector



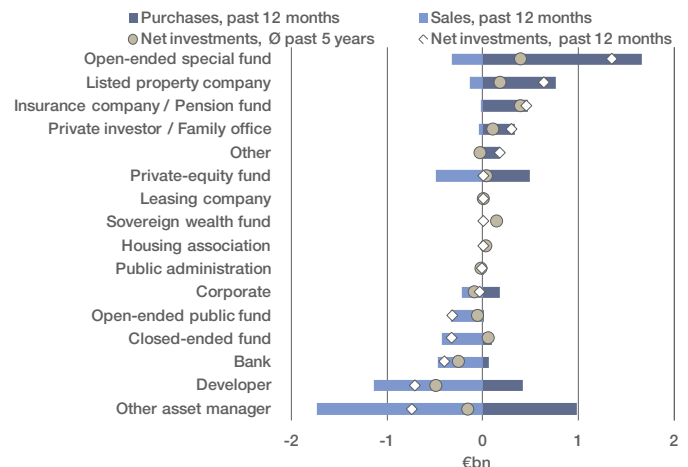
Source: Savills

GRAPH 17 Transaction volume by origin of buyer



Source: Savills

GRAPH 18 Transaction volume by type of investor



Source: Savills

Frankfurt market in minutes

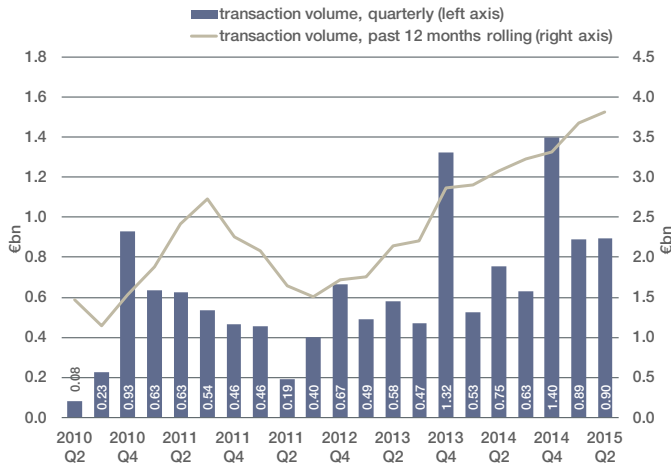
Yields harden as foreign investment grows

- More than €6.2bn was invested in commercial property in Frankfurt during the 12 months to the end of June 2015. This represents an increase of 22% on the corresponding figure to the end of the first quarter.
- The office sector dominated market activity during the first half of 2015, not least due to a scarcity of retail property. Offices accounted for more than 80% of investment during the period. Investors' interest remains primarily focused on the core and core plus segments, although activity in the value-add area has recently increased significantly. This is illustrated by the large number of property sales in B locations. Five properties have changed hands in Niederrad alone during the current year.
- The high proportion of foreign purchasers has further increased pressure on yields as investors assess Frankfurt in an international context. Indeed, compared with other major cities worldwide, Frankfurt remains relatively inexpensive. Consequently, yields are likely to harden further across all market segments.

Commercial investment market Hamburg

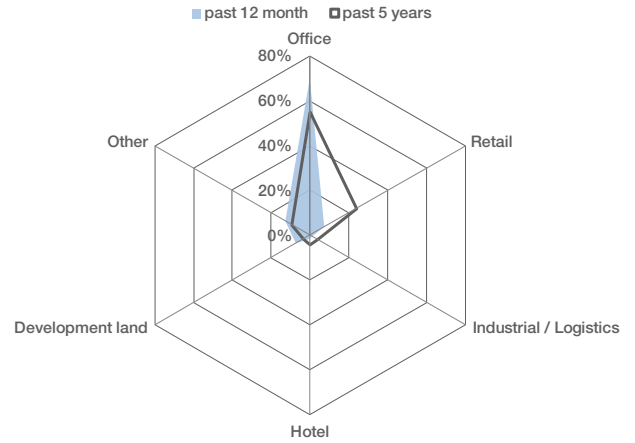
+++ Transaction volume 12M +4% | Prime office yield with 10 bps. decrease +++

GRAPH 19 Transaction volume



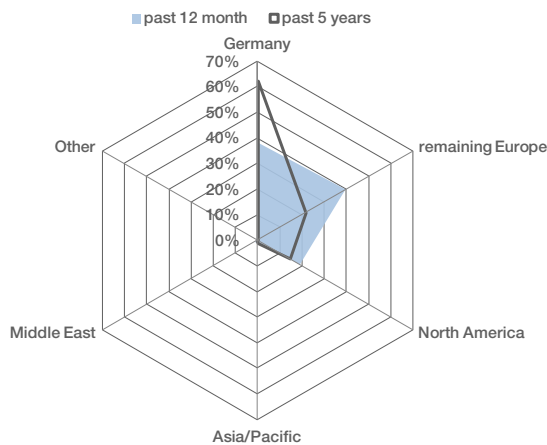
Source: Savills

GRAPH 20 Transaction volume by sector



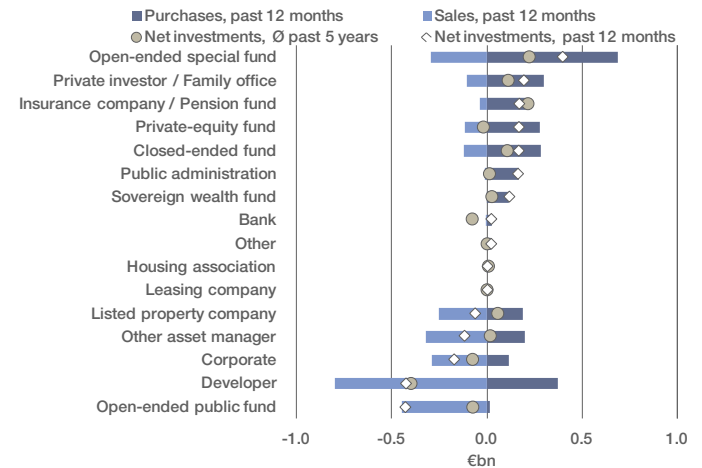
Source: Savills

GRAPH 21 Transaction volume by origin of buyer



Source: Savills

GRAPH 22 Transaction volume by type of investor



Source: Savills

Hamburg market in minutes

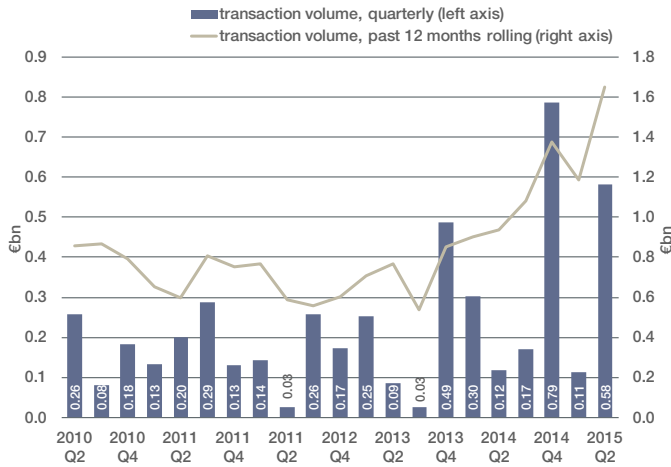
Office deals dominate, particularly in B locations

- The 12-month transaction volume to the end of June 2015 in Hamburg reached just over €3.8bn, representing a 4% increase on the corresponding figure from three months earlier.
- It is noteworthy that transaction activity was almost exclusively limited to the office sector. Offices accounted for almost €1.4bn of investment, which represented almost three quarters of the total transaction volume. The main reason for the relatively low transaction volume in the retail sector (approx. €0.2bn) is the low liquidity on the supply side. Owners of retail property remain reluctant to dispose of their investments.
- Properties in prime locations are also rare in the office segment, causing investment activity to shift further into B locations. Altona has been a particular focus of attention over the last two years and a number of deals are likely to be completed in the City South submarket. A number of properties are also expected to come to the market in City North. Risk premiums in such locations are likely to be eroded further as investors are prepared to pay higher prices.

Commercial investment market Cologne

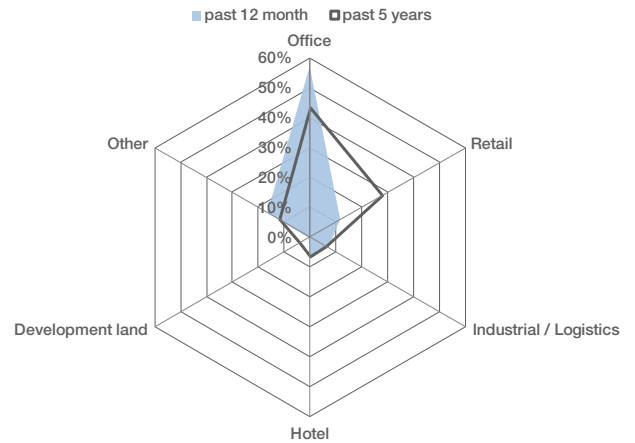
+++ Transaction volume 12M +39% | Prime office yield with 10 bps. decrease +++

GRAPH 23 Transaction volume



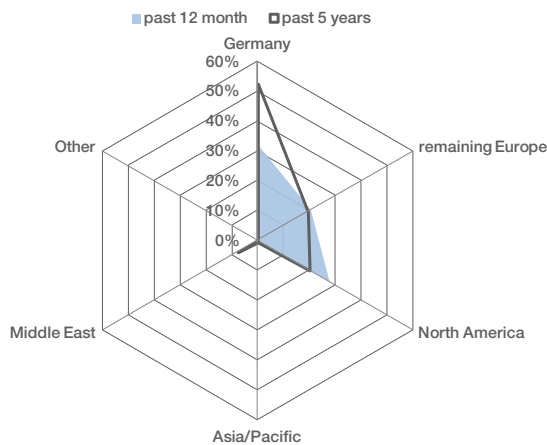
Source: Savills

GRAPH 24 Transaction volume by sector



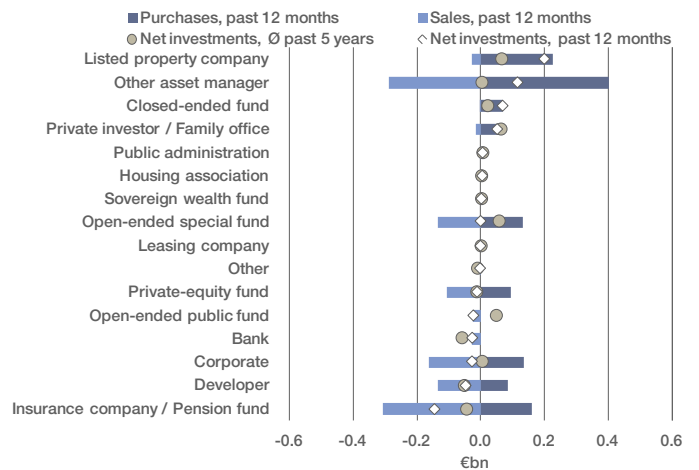
Source: Savills

GRAPH 25 Transaction volume by origin of buyer



Source: Savills

GRAPH 26 Transaction volume by type of investor



Source: Savills

Cologne market in minutes

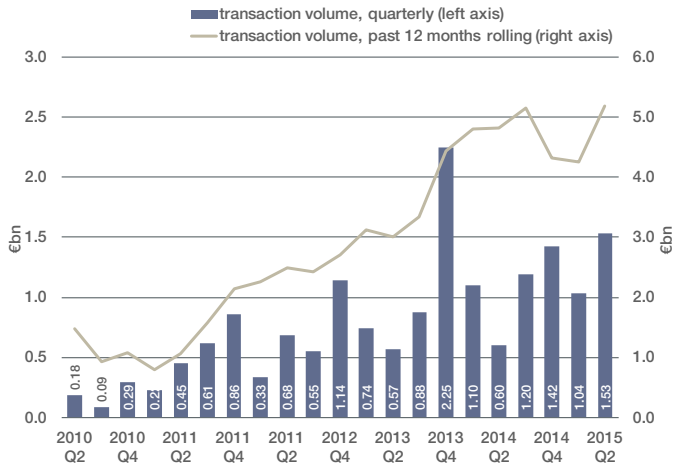
Two large transactions in a market of otherwise small deals

- Almost €1.7bn was invested in commercial property in Cologne during the 12 months to the end of June 2015, representing an increase of 39% compared with the corresponding figure to the end of the first quarter.
- Transaction activity during the first half of 2015 was particularly characterised by smaller transactions. Only the Barthonia-Forum and the Kaufhof property on Hohe Straße changed hands for more than €100m during the period. The latter formed part of the department store portfolio sold by HBC. The average transaction size across all properties sold was just over €18m, which was significantly higher than the previous year's figure (approx. €12m).
- Owing to the high demand, yields remained under pressure during the second quarter. In the prime segment, yields hardened by 10 basis points on both offices and high-street properties to 4.4% and 4.1% respectively. Further slight compression is expected over the coming months.

Commercial investment market Munich

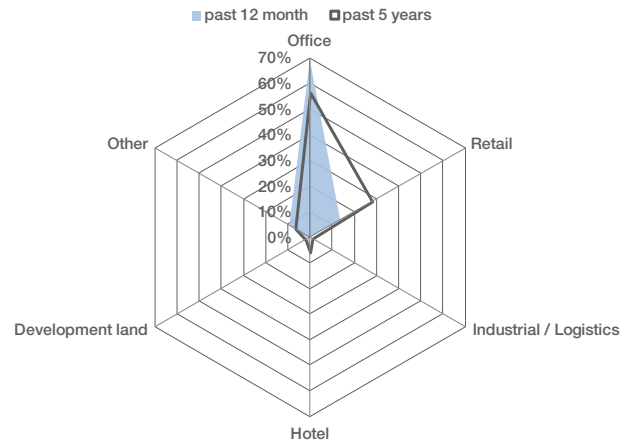
+++ Transaction volume 12M +50% | Prime office yield with 10 bps. decrease +++

GRAPH 27 Transaction volume



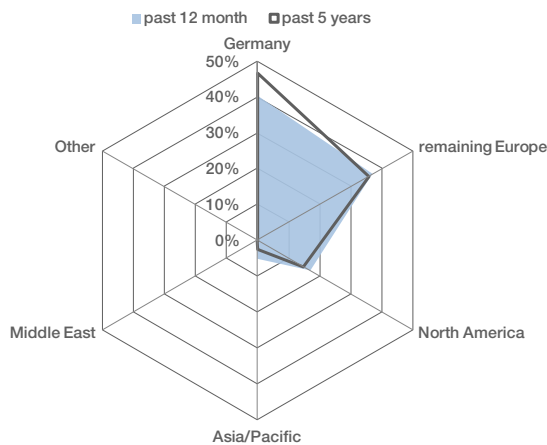
Source: Savills

GRAPH 28 Transaction volume by sector



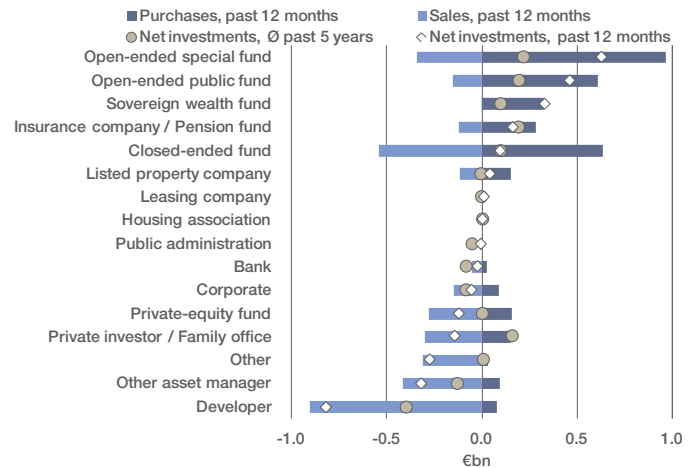
Source: Savills

GRAPH 29 Transaction volume by origin of buyer



Source: Savills

GRAPH 30 Transaction volume by type of investor



Source: Savills

Munich market in minutes

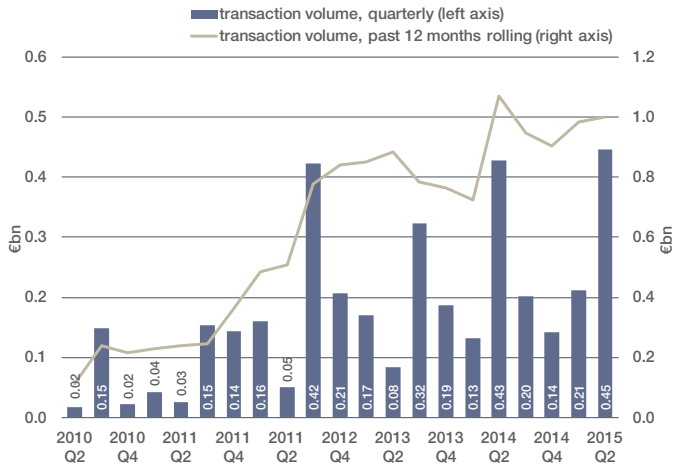
Transaction volume continues upward trend, yield compression intensifies

- Around €5.2bn was invested in commercial property in Munich during the 12 months to the end of June 2015. This represents an increase of more than 50% compared with the corresponding figure for the 12 months to the end of the previous quarter.
- The three largest office transactions were the acquisition of a majority share in the Siemens Campus by a joint venture between Pramerica and Chinese sovereign wealth fund Ginkgo Tree, the purchase of 88north by Amundi and the acquisition of the Leitwerk by Real I.S. All three properties are situated in B locations in Munich. With owners of core properties still reluctant to sell, many investors are expanding their search profiles and are increasingly shifting their attention to B locations as well as the value-add segment.
- Against this background, net initial yields on office properties in B locations are likely to harden by a further 20 basis points by the end of the year. Slight yield compression is also expected in the prime segment.

Commercial investment market Stuttgart

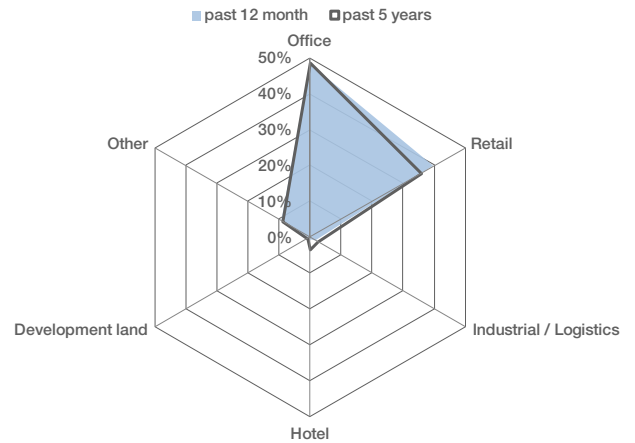
+++ Transaction volume 12M +2% | Prime office yield stable at 4.5% +++

GRAPH 31 Transaction volume



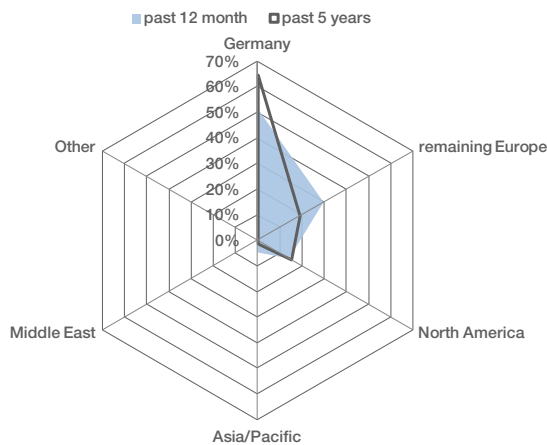
Source: Savills

GRAPH 32 Transaction volume by sector



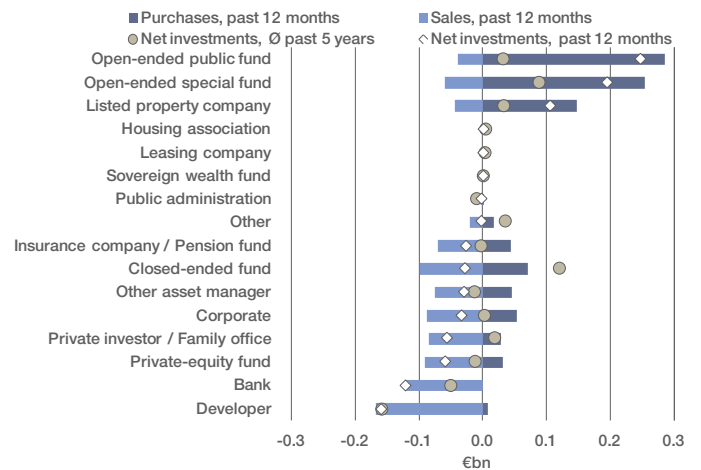
Source: Savills

GRAPH 33 Transaction volume by origin of buyer



Source: Savills

GRAPH 34 Transaction volume by type of investor



Source: Savills

Stuttgart market in minutes

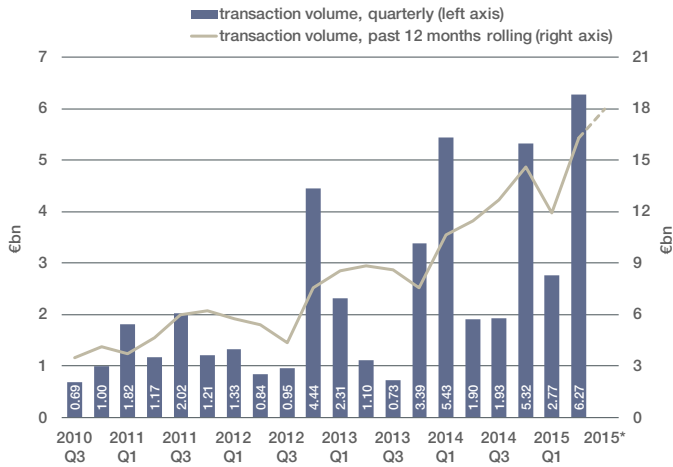
Attractive environment for core investors

- Almost exactly €1bn was invested in commercial property in Stuttgart between July 2014 and June 2015. This represents an increase of 2% on the corresponding figure from the first quarter of 2015.
- The preferred locations of most investors are the city centre as well as the airport and its surrounding area. For risk-averse investors in particular, Stuttgart is an extremely attractive market in the current environment. Core properties are not yet as expensive in the city compared with elsewhere, despite Stuttgart's economic fundamentals competing with those of the other top markets.
- Moderate yield compression is therefore expected in the prime segment over the coming months. The reluctance of most landlords to sell their property is likely to exert additional pressure on yields.

Commercial portfolio investment market Germany

+++ Transaction volume 12M +37% | Share of retail portfolios at 45% +++

GRAPH 35 Transaction volume



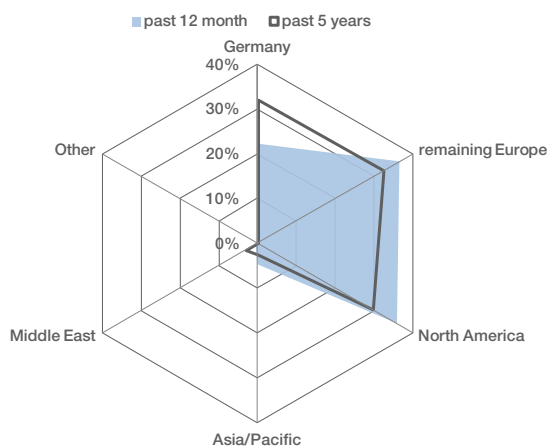
Source: Savills / * forecast

GRAPH 36 Transaction volume by sector



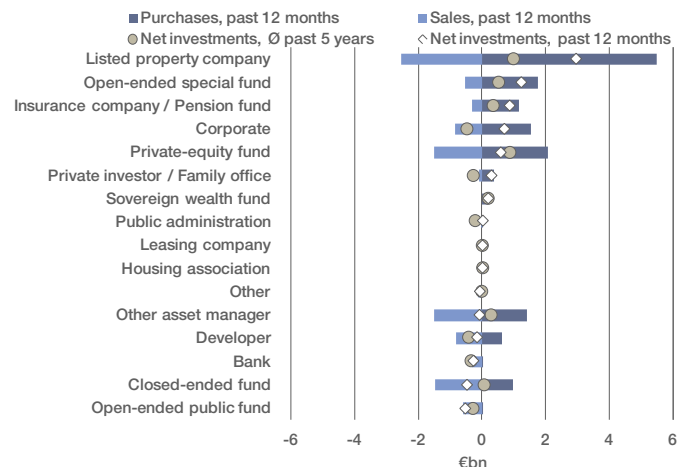
Source: Savills

GRAPH 37 Transaction volume by origin of buyer



Source: Savills

GRAPH 38 Transaction volume by type of investor



Source: Savills

German commercial portfolio market in minutes

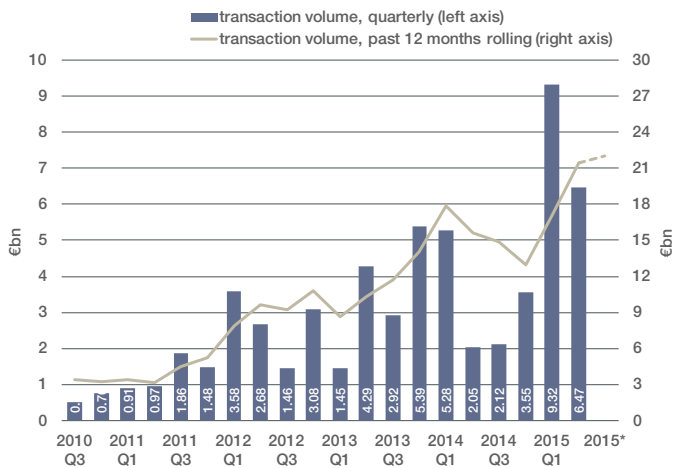
Foreigners are buying, Germans are selling

- The transaction volume for German commercial property portfolios totalled €16.3bn for the 12 months to the end of June. This represents an increase of 37% on the corresponding figure to the end of the first quarter.
- There is significant momentum on both the supply and demand side. The high pressure to invest is increasingly attracting investors to the portfolio segment and owners are taking advantage of the favourable market environment to bring portfolios to the market.
- Foreign investors were on the purchaser side in two out of three portfolio transactions. Furthermore, since their acquisitions were above average in size, this group accounted for almost 85% of the overall transaction volume. Investors from North America and the United Kingdom in particular are surging into the German portfolio segment. On the vendor side, domestic investors were significantly more active than they were as purchasers, accounting for 50% of disposals. As a result, this group made net portfolio disposals totalling approx. €3bn during H1.

Residential portfolio investment market Germany

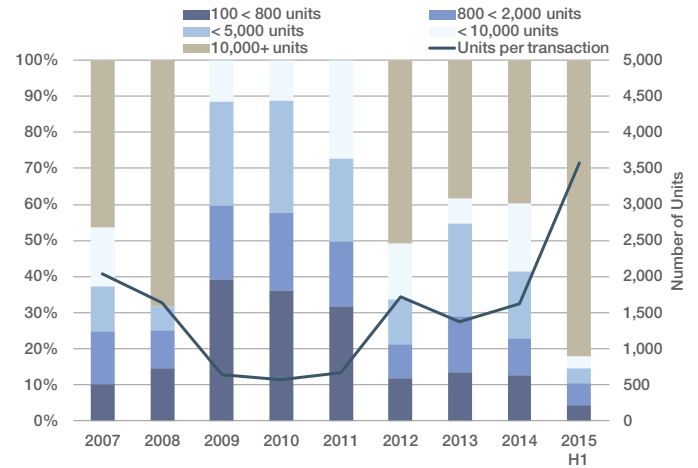
+++ Transaction volume 12M +21% | Price per unit increased to €68,100 +++

GRAPH 39 Transaction volume



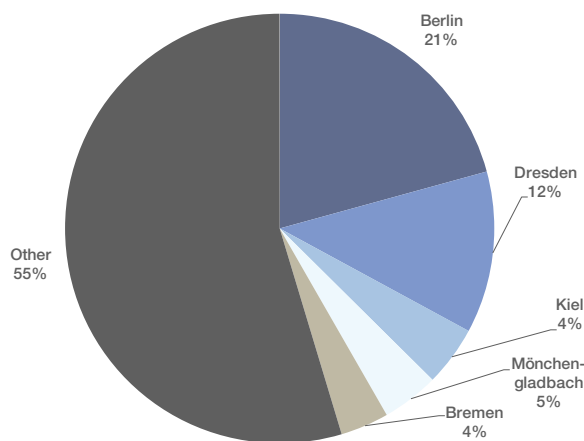
Source: Savills / * forecast

GRAPH 40 Size of portfolios transacted



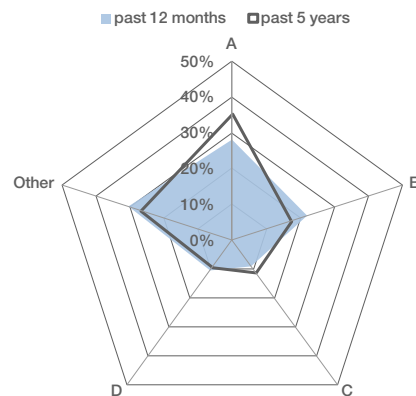
Source: Savills

GRAPH 41 Transacted units by location*



Source: Savills / * past 12 months

GRAPH 42 Transacted units by type of city*



Source: Savills / * based on the Bulwiengesa classification

German residential portfolio market in minutes

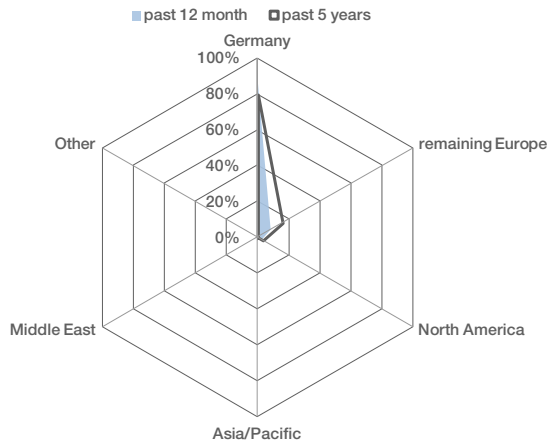
Transaction volume doubles, prices rise by a quarter

- The transaction volume for German residential portfolios totalled approx. €21.7bn over the last 12 months. This represents an increase of 21% on the corresponding figure to the end of the first quarter of 2015.
- The pursuit of expansion is a particular driver of the current momentum in the German residential investment market. This is particularly true of listed residential property companies, who have been responsible for 80% of the overall transaction volume this year. The acquisition of Gagfah by Deutsche Annington alone accounted for more than half of the transaction volume in the first half of the year.
- The continued huge demand for German residential property is not only reflected in the transaction volume but also in price growth. The price paid per unit stood at approx. €68,100 during the first half of 2015; an increase of 26% on the previous year. The strong price growth is resulting in increasing willingness to sell, even among those investors who originally envisaged longer holding periods.

Residential portfolio investment market Germany

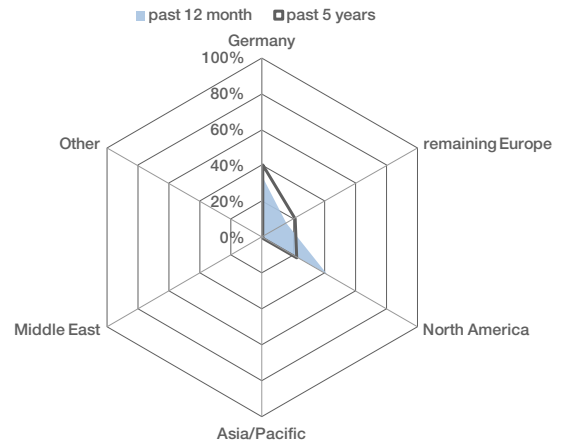
+++ Share of domestic buyers at 86% | Listed companies were largest net investors +++

GRAPH 43 Transaction volume by origin of buyer



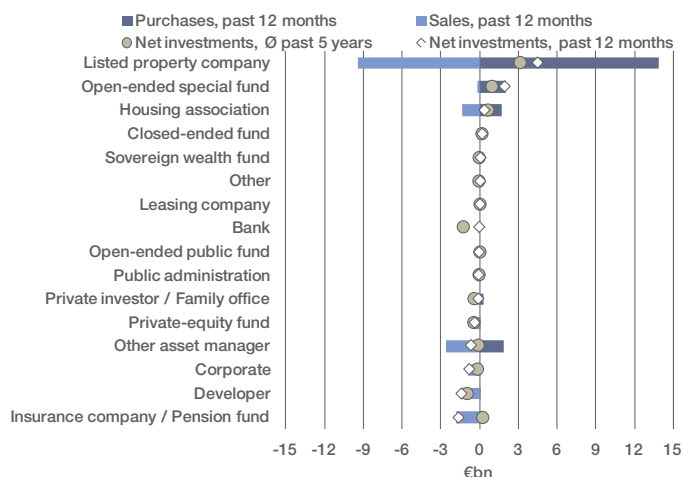
Source: Savills

GRAPH 44 Transaction volume by origin of seller



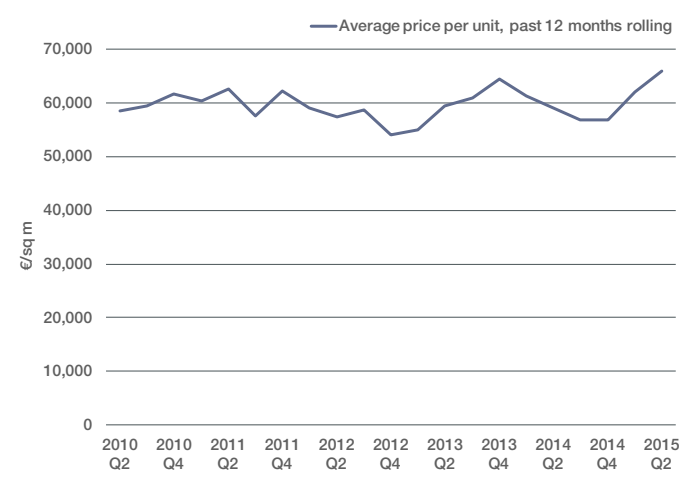
Source: Savills

GRAPH 45 Transaction volume by type of investor



Source: Savills

GRAPH 46 Development of prices*



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

TABLE 3 The largest residential portfolio transactions in Q2 2015 at a glance*

Portfolio	Number of units	Volume	Buyer	Vendor
Südwelo	approx. 19.800	approx. €1,900m	Deutsche Annington	Patrizia et al.
Obligo	approx. 13.500	undisclosed	Patrizia	Obligo Investment Management
Westgrund	approx. 15.300	approx. €790m	Adler Real Estate	Westgrund
-	approx. 4.500	undisclosed	Deutsche Wohnen	Reggeborgh Vastgoed Beleggingen
-	approx. 8.500	undisclosed	Grand City	Adurion

Source: Savills / * only published transactions are shown

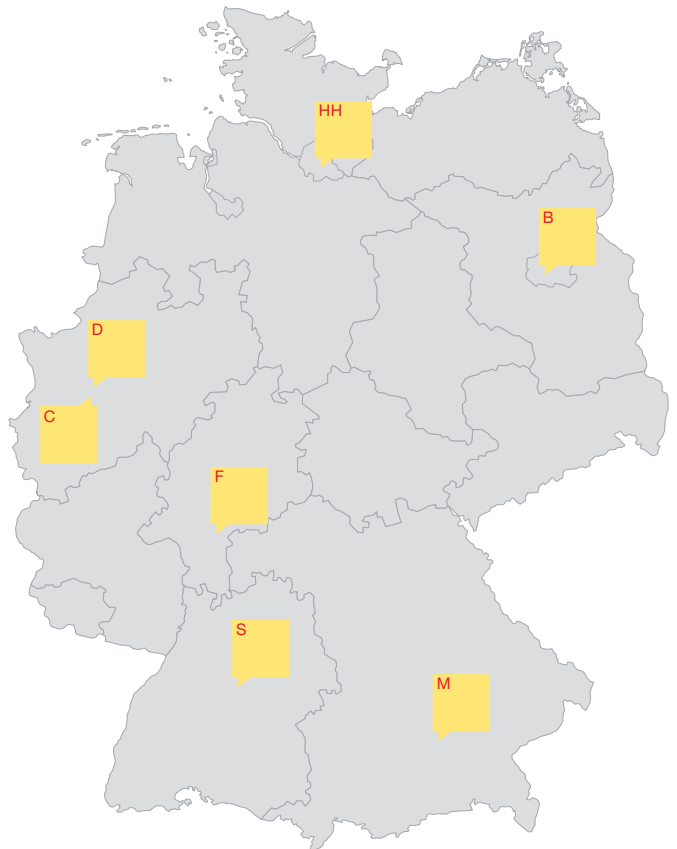
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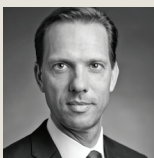
- » Purchase and sale of single assets and portfolios
- » Corporate Finance - Valuation
- » Leasing of office and retail buildings
- » Leasing and sale of industrial and warehouse properties
- » Corporate Real Estate Services

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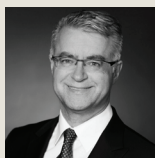


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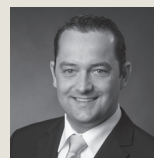
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