savills

Investment Market monthly **Germany**

January 2016

Topic of the month

ABBA strategies? Yes, but rather AB than BA.

■ The German investment market continues to be characterised by massive surplus demand, which is most pronounced in the core segment. When prime properties change hands, this means that there are always numerous bidders left out in the cold that cannot invest their capital in the market.

■ Consequently, even highly risk-averse investors have been increasingly "softening" their investment criteria. More and more requirement profiles now include B cities and secondary locations, for instance, in addition to prime locations in A cities.

■ The increasing popularity of ABBA strategies, i.e. investing in B locations in A cities or A locations in B cities, is also inevitably resulting in greater surplus demand and compression of initial yields in B cities and secondary locations. Furthermore, yields are reaching new lows across all markets.

■ However, when it comes to the two options of B city/A location or A city/B location, investors appear to have a clear preference for the latter, as illustrated by trends in risk premiums. Yields on top office properties in B locations in A cities have hardened more sharply than prime office yields since 2011 and the risk premium has halved since this time to 96 basis points (Fig. 1). Competition among investors for properties in B locations has, thus, also significantly intensified and the 'risk of B locations' has evidently diminished in the perceptions of investors.

■ A different picture emerges when comparing prime office yields in A and B cities. Risk premiums here have fluctuated around the 100 →

Topic of the month (continuation)

ABBA strategies? Yes, but rather AB than BA.

basis point mark in recent years. Last year, they even increased moderately compared with 2014 to 107 basis points (Fig. 2). Consequently, the 'risk of B cities' has evidently not diminished in the eyes of investors despite the increased competition for properties in A cities.

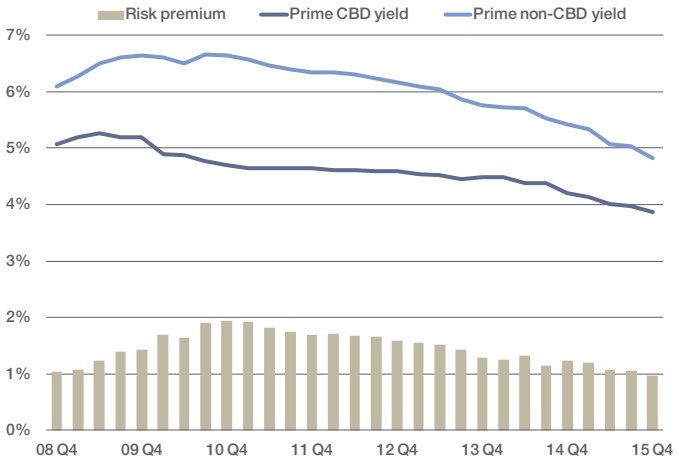
■ The 'risk of B locations' is essentially a structural risk since the letting risk, and hence the risk of vacancies, in these locations is higher than in A locations, particularly in economically unfavourable times. B cities, on the other hand, are characterised by a higher liquidity risk compared with A cities since, in times of lower investment activity, it is more difficult to find purchasers, making exit strategies less reliable.

■ Accordingly, when faced with the choice, investors currently prefer to accept structural risks rather than less liquidity. Such behaviour is completely in line with the purchaser structure in the market. The dominant players in the current cycle include special funds fed by insurance companies and pension schemes. The latter two investor groups have also contributed significant direct investment (Tab. 2). On the one hand, such investors prefer large-volume properties, which are rare outside of A cities. On the other hand, they are most comfortable in the extremely liquid bond market and it can be assumed, therefore, that liquidity is also a decisive factor in their real estate investments.

■ It is possible that at least a portion of such players' investments in liquid A cities is invested on the basis that, in a more favourable interest rate environment, it can be quickly withdrawn from the property market and shifted into the bond market. In that case, however, there would remain the risk of a large number of properties being brought to the market simultaneously, forcing down prices. Liquidity, then, would come at a great cost.

GRAPH 1

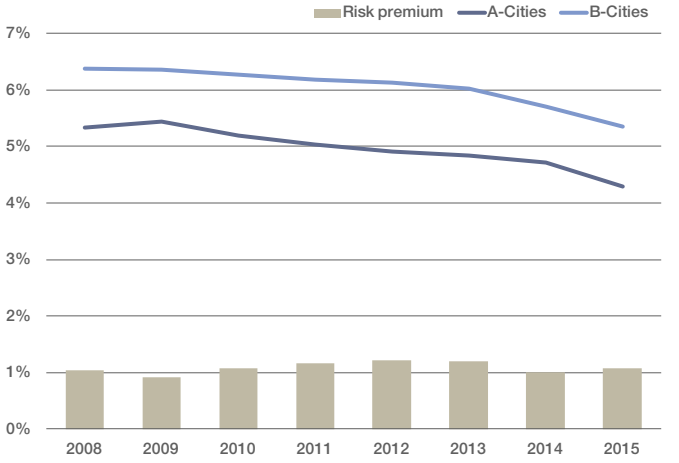
Office yields in A-Cities*



Source: Savills / * average of Berlin, Frankfurt and Munich

GRAPH 2

Prime office yields in A- and B-Cities*



Source: Bulwiengesa / *based on classification of Bulwiengesa

The month in brief

Commercial 12-months volume at €55.3bn, residential at €22.5bn

- In January 2016, approx. €2.4bn was invested in the **commercial real estate market** in total. In comparison: In the same month last year (January 2015), the transaction volume was around €3.3bn. The average monthly transaction volume was at €4.6bn in the past twelve months (Jan 2015 – Dec 2015). In total of the past twelve months some €55.3bn were invested, and therefore 2% less compared to the figure of last month (Jan 2015 – Dec 2015).

- On the **residential real estate market** approx. €0.3bn was invested in January 2016. In the same month last year (January 2015), the transaction volume was at around €0.5bn. In the past twelve months (Jan 2015 – Dec 2015) the average monthly transaction volume amounted to €1.9bn. The rolling transaction volume of the past twelve months summed up to €22.5bn, representing a decrease of 1% compared to the figure of last month (Jan 2015 – Dec 2015).

Commercial investment market

Overview

TABLE 1

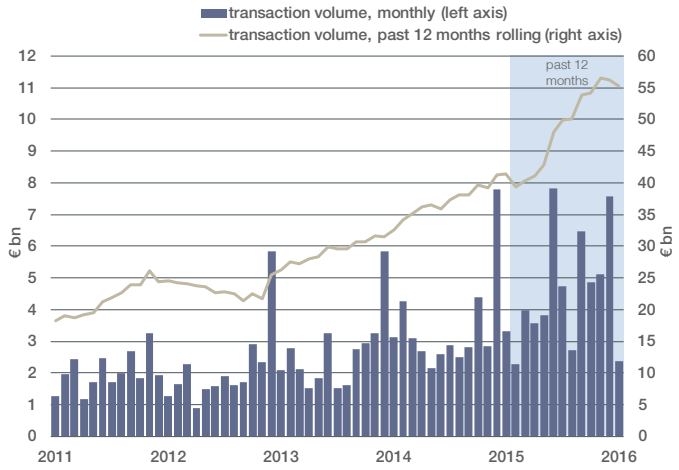
Transaction volume and prime yields

	Transaction volume (€m, 12 months rolling)			Prime Yield Office		Prime Yield High street property	
	Jan 2016	against Jan 2015	against Dec 2015	Q4 2015	against Q3 2015	Q4 2015	against Q3 2015
Berlin	7,590	+55%	-5%	3.9%	-10bps	3.6%	+/-0bps
Düsseldorf	2,832	+95%	+1%	4.1%	+/-0bps	3.8%	+/-0bps
Frankfurt	5,580	+15%	-1%	4.0%	-10bps	3.5%	+/-0bps
Hamburg	4,039	+27%	+/-0%	4.1%	+/-0bps	3.7%	+/-0bps
Cologne	2,233	+78%	+1%	4.3%	-10bps	4.0%	-10bps
Munich	5,886	+42%	+1%	3.7%	-10bps	3.5%	+/-0bps
Stuttgart	1,740	+99%	+1%	4.3%	+/-0bps	4.0%	+/-0bps
Germany*	55,326	+34%	-2%	4.1%	-4bps	3.7%	-1bps

Source: Savills / * prime yields = Ø Top 7

GRAPH 3

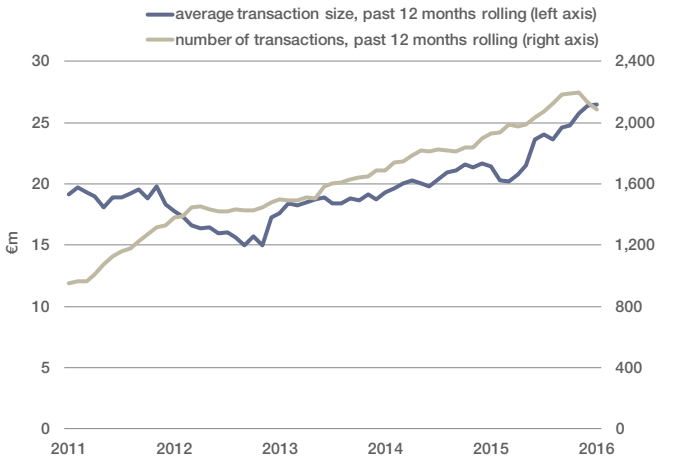
Transaction volume



Source: Savills

GRAPH 4

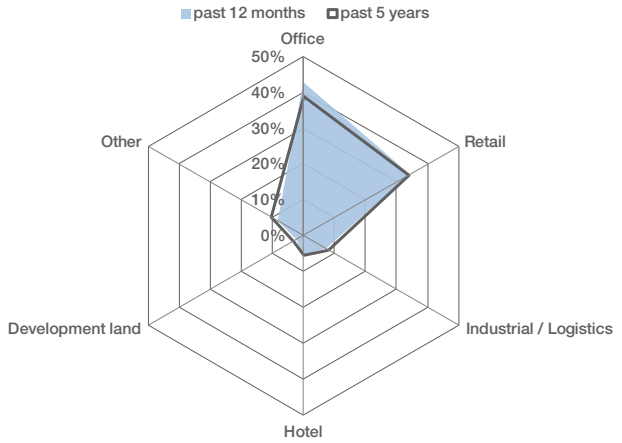
Deal size and number of transactions



Source: Savills

GRAPH 5

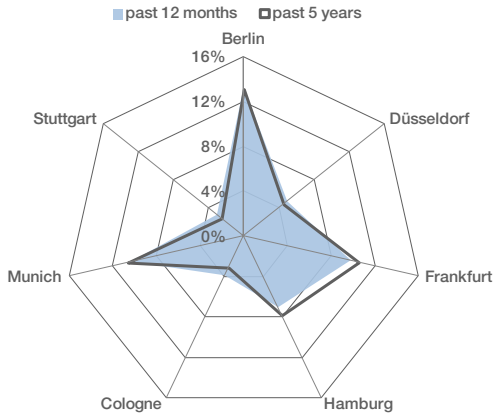
Transaction volume by type of use



Source: Savills

GRAPH 6

Transaction volume by location*



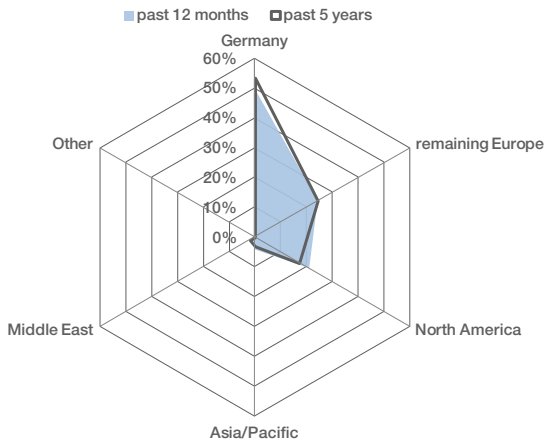
Source: Savills / * share of other locations 48% (past 12 months) and 48% (past 5 years)

Commercial investment market

Buyer and seller groups

GRAPH 7

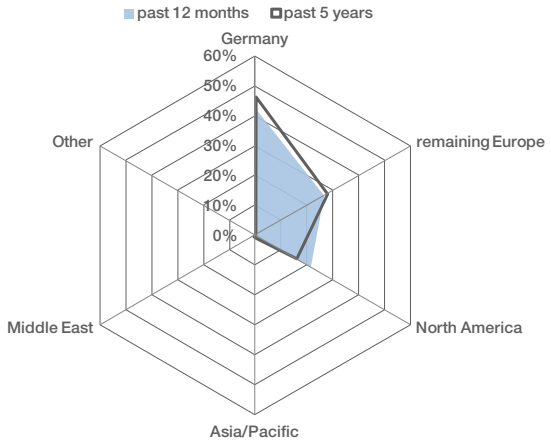
Transaction volume by origin of buyer



Source: Savills

GRAPH 8

Transaction volume by origin of seller



Source: Savills

TABLE 2

Top 10 buyer groups

#	Buyer	Volume (€m)	
		past 12 months	Ø past 5 years
1	Open-ended special fund	11,416	6,465
2	Listed property company	6,127	3,630
3	Other asset manager	4,914	3,437
4	Private-equity fund	4,811	3,098
5	Developer	3,876	2,522
6	Closed-ended fund	3,312	3,033
7	Corporate	3,183	2,242
8	Private investor / Family office	2,658	2,337
9	Insurance company / Pen-sion fund	2,458	2,681
10	Open-ended public fund	2,207	1,263

Source: Savills

TABLE 3

Top 10 seller groups

#	Seller	Volume (€m)	
		past 12 months	Ø past 5 years
1	Developer	7,504	6,036
2	Corporate	6,740	3,105
3	Closed-ended fund	5,138	2,833
4	Other asset manager	4,994	3,152
5	Open-ended special fund	3,994	2,685
6	Listed property company	3,603	2,265
7	Open-ended public fund	3,552	1,586
8	Private-equity fund	3,402	2,466
9	Private investor / Family office	2,136	1,620
10	Bank	1,506	1,406

Source: Savills

Commercial investment market

Transactions in detail

TABLE 4

Top 20 transactions of the month*

Property / Portfolio	Location(s)	(Main) Type of property	Volume (€m)	Area (sq m)	Buyer	Seller
Loop5	Weiterstadt	Retail	undisclosed	54,100	Deutsche Asset & Wealth Management	Sonae Sierra SGPS, Foncière Euris
Archer (10 properties)	i. a. Dortmund, Frankfurt, Köln	Office	undisclosed	155,200	Apollo Management Advisors GmbH	Archon Group Deutschland GmbH
Portfolio (9 properties)	i. a. Berlin, Haiger, Neuss, Pirna	Retail	ca. 150	112,200	Rockspring Property Asset Management	unknown Investor
Rheinwerk 3	Bonn	Office	undisclosed	22,800	REAL I.S. AG Gesellschaft für Immobilien Assetmanagement	BonnVisio Immobilien GmbH & Co. KG
Äppelallee-Center	Wiesbaden	Retail	ca. 82	25,900	Intreal	Union Investment Real Estate GmbH
Medienpark Kampnagel	Hamburg	Office	ca. 70	29,000	Schroders Property Investment Management	Kildare Partners
Leopold 250	München	Office	undisclosed	20,000	Hansainvest - Hanseatische Investment GmbH	Strabag Real Estate GmbH
Postpyramide	Hamburg	Office	undisclosed	38,000	Otto Wulff, Hamburg Team, Christmann Beteiligungen	Benino Investment
Kempinski Plaza	Berlin	Retail	undisclosed	10,000	EB Group GmbH	Prelios Deutschland GmbH
Ferrostaal-Zentrale (4 properties)	Essen	Office	undisclosed	35,000	Henley	Ferrostaal
Konrad-Adenauer-Platz	Düsseldorf	Site	undisclosed	n/a	Gesellschaft für Beteiligungen und Immobilien GBI	CA Immo-Gruppe
Europacity (8 properties)	Berlin	Site	undisclosed	25,000	Benson Elliot, Kauri CAB Management GmbH	CA Immo-Gruppe
Wyndham Stuttgart Airport Messe Hotel	Stuttgart	Hotel/gastronomy	ca. 31	11,300	W. P. Carey & Co. LLC	unknown Investor
HW 26	München	Office	undisclosed	3,800	unknown Private Investor	Optima-Aegidius Firmengruppe
Haus Friedrichstadt	Berlin	Retail	undisclosed	7,000	Credit Suisse (Deutschland) AG	Tristan Capital Partners, caleus capital investors gmbh (CCI)
InterCity Hotel Dresden	Dresden	Hotel/gastronomy	ca. 28	12,300	TLG Immobilien GmbH	Prelios Deutschland GmbH
Lenz-Haus	Berlin	Office	undisclosed	7,000	unknown Pension Fund (Germany)	Benson Elliot, Dr. Gop & Klingsöhr, Rockstone Real Estate
Portfolio	i. a. Frankfurt, Hanau, Mainz	Mixed-use property	undisclosed	18,000	unknown Unlisted Property Company (Germany)	unknown Investor
Trio (3 properties)	Neu-Isenburg	Office	undisclosed	19,000	unknown Institutional Investor (abroad)	Aberdeen Asset Management Deutschland AG
Nordpark Alzenau	Alzenau	Retail	undisclosed	13,700	TIAA Henderson Real Estate (TH Real Estate)	Beos AG

Source: Savills / * only published transactions are shown, measured by volume

Residential investment market

Overview and market structure

TABLE 5

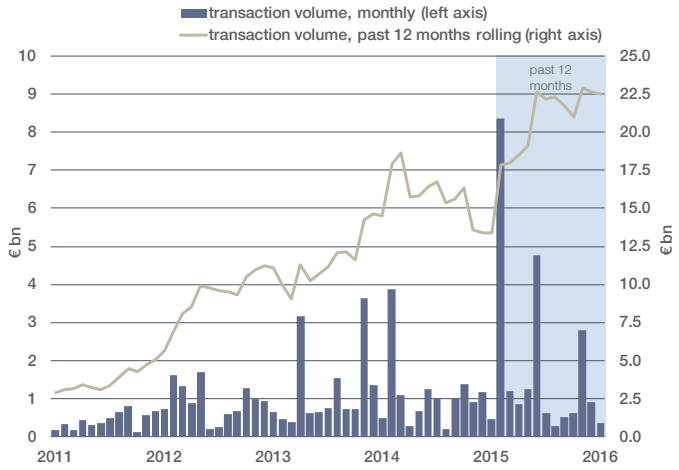
Transaction volume and prices*

	Transaction volume (€m, 12 months rolling)			Prices (€ per unit, 12 months rolling)		
	Jan 2016	against Jan 2015	against Dec 2015	Jan 2016	against Jan 2015	against Dec 2015
A-Cities	8,607	+102%	-2%	94,200	+/-0%	-1%
B-Cities	4,300	+148%	+2%	63,700	+23%	+1%
C-Cities	2,155	-13%	+/-0%	78,600	+51%	+/-0%
D-Cities	1,052	-19%	+/-0%	50,100	+19%	+1%
Other	6,419	+79%	+/-0%	56,200	+25%	+/-0%
Germany	22,533	+69%	-1%	70,100	+24%	+/-0%

Source: Savills / * City classification based on Bulwiengesa

GRAPH 9

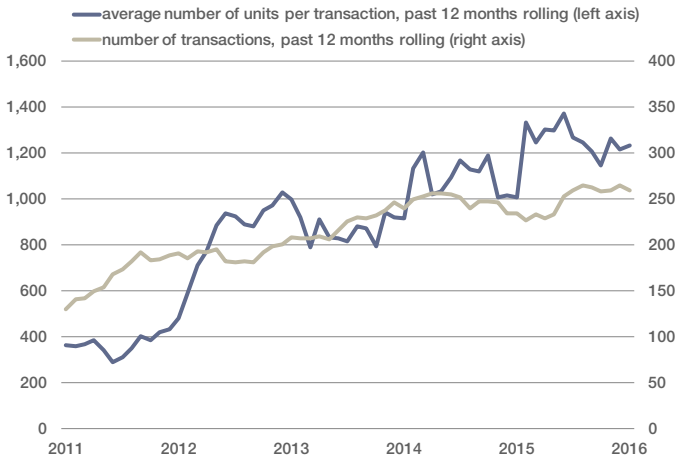
Transaction volume



Source: Savills

GRAPH 10

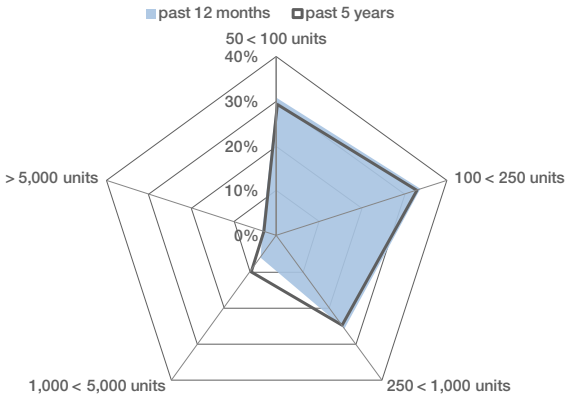
Deal size and number of transactions



Source: Savills

GRAPH 11

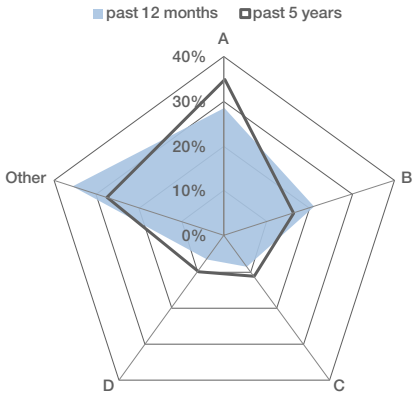
Number of transactions by size



Source: Savills

GRAPH 12

Traded units by city category*



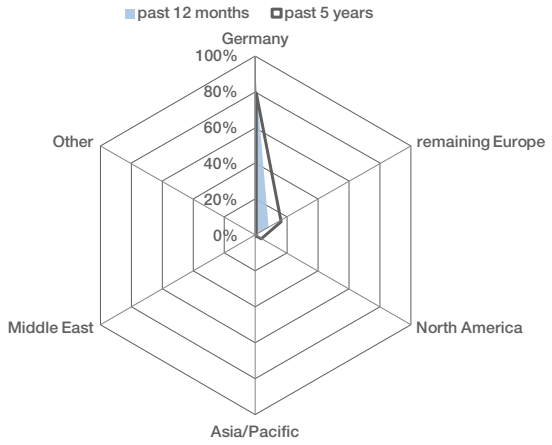
Source: Savills / * based on the Bulwiengesa classification

Residential investment market

Market players, prices and transactions in detail

GRAPH 13

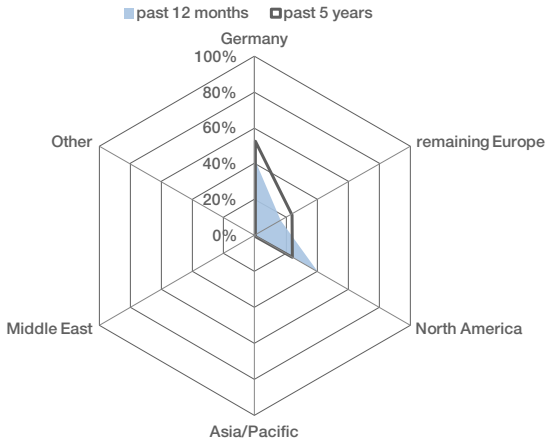
Transaction volume by origin of buyer



Source: Savills

GRAPH 14

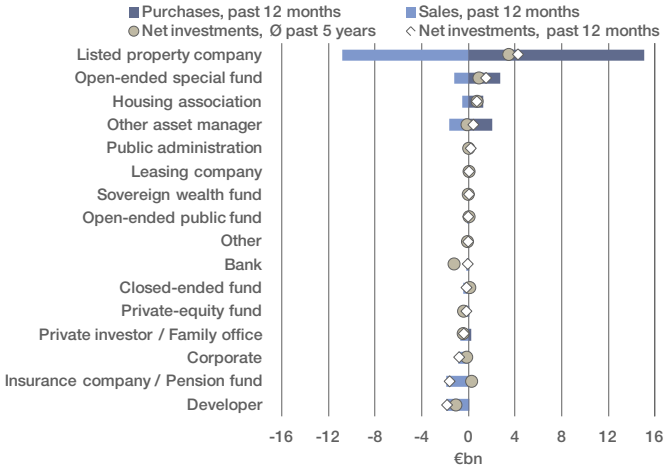
Transaction volume by origin of seller



Source: Savills

GRAPH 15

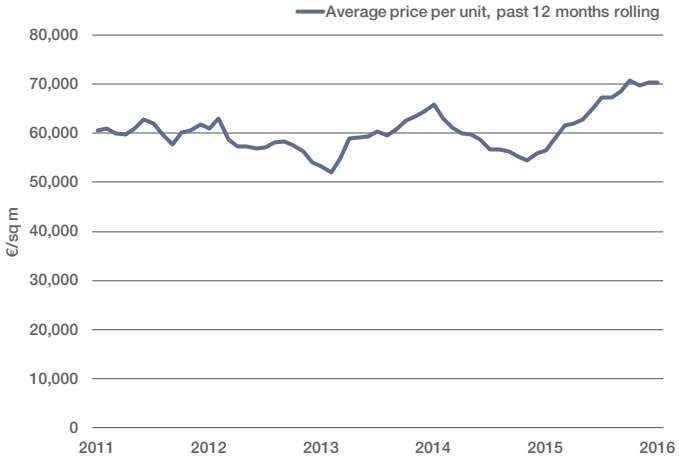
Transaction volume by type of investor



Source: Savills

GRAPH16

Development of prices



Source: Savills

TABLE 6

Top 5 portfolio transactions of the month*

Name of portfolio Location(s)	Number of units	Volume (€m)	Buyer	Seller
Gewofag share (5.1%) München, Taufkirchen	1,646	undisclosed	Public Administration (Germany)	BayernLB
Weserhäuser Bremen	120	undisclosed	HanseMerkur Versicherungsgruppe	Justus Grosse Projektentwicklung GmbH
MSA-Siedlung Dortmund	505	undisclosed	Vivawest Wohnen GmbH	Bollmann Liegenschaften
Köln	97	undisclosed	Bonner Wohnbau GmbH	WVM, DIE WOHNKOMPANIE
Gewofag share (1.15%) München, Taufkirchen	371	undisclosed	Gewofag	BayernLB

Source: Savills / * only published transactions are shown, measured by volume

Savills Germany

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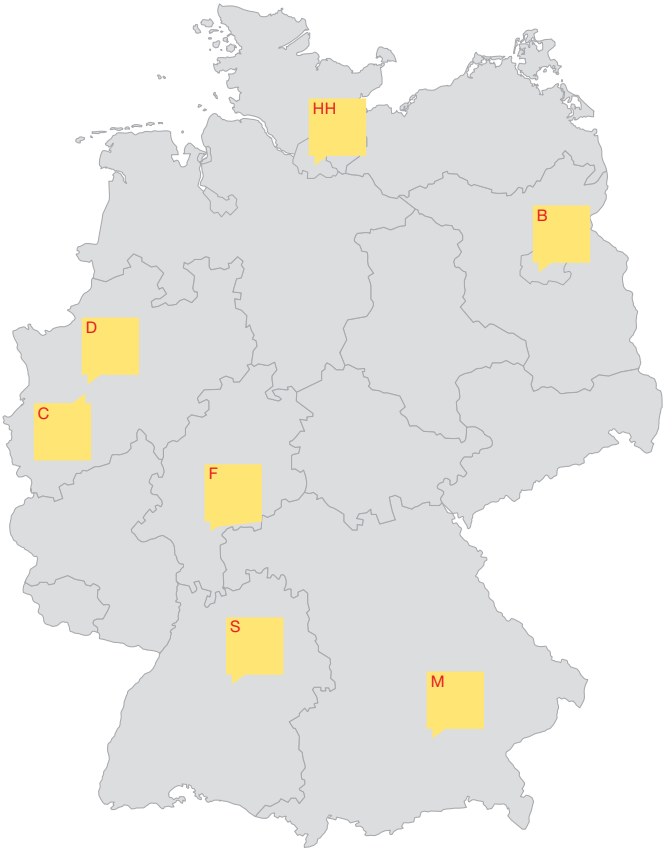

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