MARKET IN MINUTES
Savills Research

Industrial property market Germany

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Demand for space unbroken, investors are nevertheless cautious

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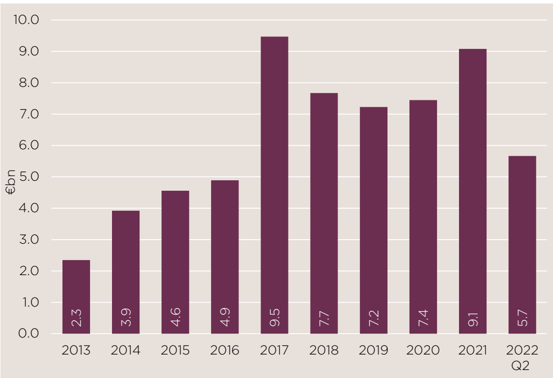
On the occupier markets the demand for industrial and logistics space is unbroken, but on the investment market at least this no longer applies without restrictions. This is how the current environment on the industrial property market can be summarised from our point of view. On the part of the users, we are experiencing pure desperation in some cases. The supply is extremely limited, especially for large users, and in view of the scarcity of suitable sites and the development pipeline, the situation is likely to worsen. From an investor's perspective, industrial real estate in itself remains attractive or has even become more attractive, not least for this reason. However, the higher interest rates are also creating a transformed environment here and, at least temporarily, noticeably increased restraint among investors.

Investors noticeably more cautious and with lower purchase price offers

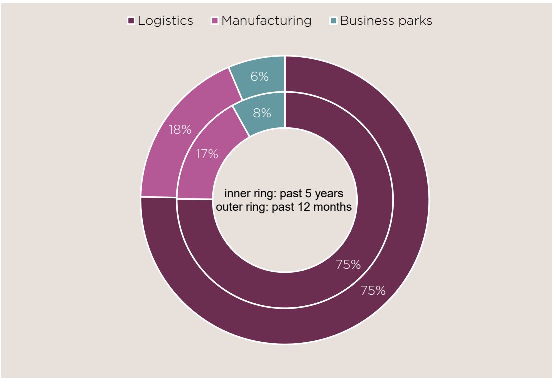
This restraint is also reflected in a comparatively low transaction volume in the second quarter. In the last three months industrial properties changed hands for approx. 1.5 billion euros. In the first quarter it was still 4.1 billion euros and on average over the last five years 2.0 billion euros per quarter. While the number of transactions and the volume of transacted single assets remained stable, activity in the portfolio segment declined significantly - the transaction volume here was more than 90% below the value of the first quarter. We know of several investors who have suspended their purchases for the time being and want to observe the market in the coming months. We therefore expect subdued investment activity in the third quarter. Especially in the large-volume and high-priced segment, investors are showing restraint and, according to our observations, this is where they have corrected their purchase price offers most significantly.

Graph 1: Transaction volume



Source Savills

Graph 2: Transaction volume by type of use



Source Savills

Focus on selected figures

1,000 EUR/sq m
Recently we have registered several sales of logistics plots where the price was beyond 1,000 EUR/sq m.

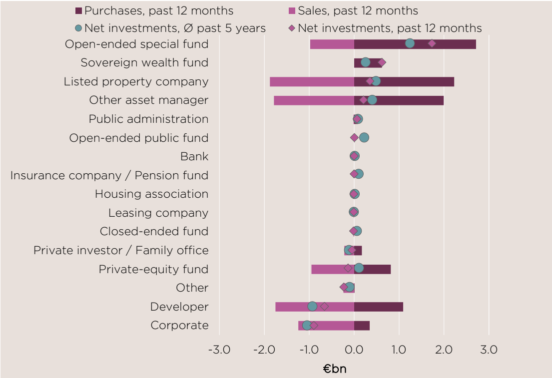
27 %
North American buyers accounted for more than a quarter of the transaction volume in the last twelve months. The average for the last five years was only 17%.

Table 1: Transaction volume at a glance

	Q1 - Q2 2022	y-o-y change	past 12 months	y-o-y change
Logistics	4,065	+ 32 %	8,283	+ 35 %
Industrial	1,103	+ 105 %	2,006	+ 111 %
Business parks	499	+ 251 %	702	+ 90 %
Total	5,666	+ 51 %	10,990	+ 48 %

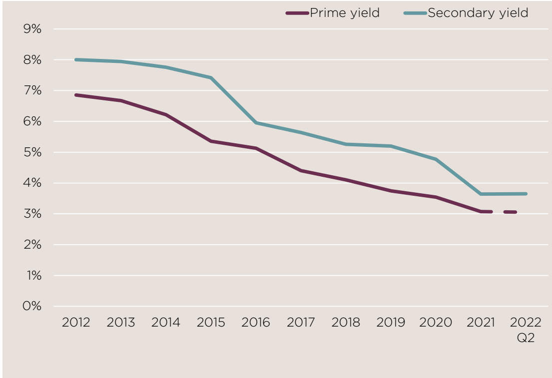
Source Savills / Transaction volume in million Euro

Graph 3: Transaction volume by type of investor



Source Savills

Graph 4: Net initial yields logistics properties



Source Savills / Note: The yield shown for Q2-2022 reflects the midpoint of the spread we have observed between offered and demanded prices. This is between 3.0% and 3.2%.

Because the price expectations of buyers and sellers have clearly diverged, it is not possible to state a prime yield at present. To our knowledge, sellers' asking prices have not yet moved measurably and remain at an initial yield of 3.0 %. Buyers' willingness to pay, on the other hand, is estimated to have fallen by 20 basis points to 3.2%. In short: The increased interest rates have also created a new basis for pricing in the industrial property market. An unchanged price level could only be expected if the interest rate effect were fully compensated by higher rental growth expectations of investors, and even then such a scenario is very unlikely in view of drastically increased financing costs - unless borrowing rates fall again.

Lack of land is a quasi-guarantee that rents will continue to rise

In fact, logistics rents have also risen in recent months, especially with regard to existing buildings. However, most of this and the expected rental growth has probably already been priced in by investors. The combination of increased rents, which are still extremely high by long-term comparison, and the lack of suitable building land have caused land prices to really explode recently. Lately, we have observed several sales of logistics plots with prices beyond the thousand-euro barrier. It is above all this shortage of land that will probably continue to drive up logistics rents, because this will almost inevitably lead to a shortage of space. And because logistics is an indispensable component in supply chains, rising rents also increase prices for producers and consumers. In this respect, the shortage of logistics land, to which the municipalities also contribute with restrictive land allocation, is not only a problem of the industry, but definitely one of social significance. It remains to be seen whether this issue will make it into the field of vision of the political players in times of high inflation anyway.

Download the charts and raw data here

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