MARKET IN MINUTES

Savills Research

Industrial property market Germany

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Against the negative factors

The two largest occupiers on the industrial space market – manufacturing companies and retail chains – are suffering particularly from the current economic environment of high inflation, rising energy costs, lower economic momentum and shrinking real purchasing power of private households. From an investor's point of view, the interest rate turnaround is an additional burdening factor. Despite these adverse circumstances, the transaction volume on the investment market for industrial property amounted to €9.3bn last year – this is not only a slight increase compared to 2021 (+2%), but also the second highest turnover ever recorded. So although the list of negative factors for the industrial and logistics space markets has grown longer and longer in recent months, the positive structural impulses still seem to outweigh them. Above all, the efforts of manufacturing and retail companies to stock up their inventories in order to be prepared for interrupted supply chains have stabilised the demand for logistics space in the past year. On the investment market, the turnaround in interest rates has again left its mark, but here, too, the fact that industrial real estate has risen in investors' favour and many investors in the sector are still under-allocated has had a stabilising effect.

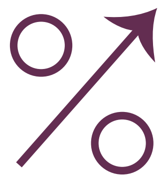
Rise in interest rate brought transaction activity down, especially in terms of portfolios

Even a glance at the distribution of turnover over the past year reveals, however, that the investment market for industrial real estate, just like all other segments, was and still is massively influenced by the turnaround in interest rates. Almost half of the total transaction volume of 2022 was attributable to Q1 (45%). In the following quarters, turnover remained much lower and the final quarter was the weakest in terms of turnover with a transaction volume of approx. €1.4bn. The decline in turnover from spring onwards mainly affects the portfolio segment, which traditionally accounts for a significant share of total

Focus on selected figures

€9.3bn

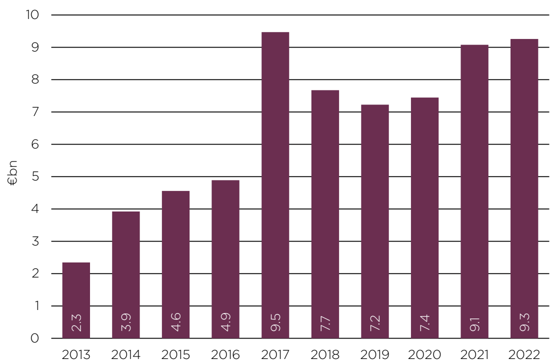
A transaction volume of €9.3bn means the second highest turnover ever recorded. Compared to the previous year, this is an increase of 2%.



45%

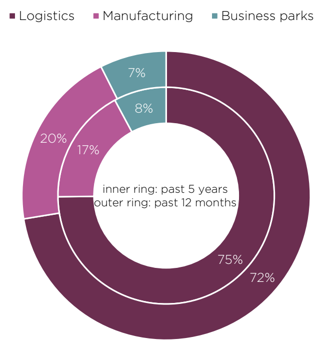
At 45%, almost half of the total transaction volume of 2022 was generated in the first quarter.

Graph 1: Transaction volume



Source Savills

Graph 2: Transaction volume by type of use



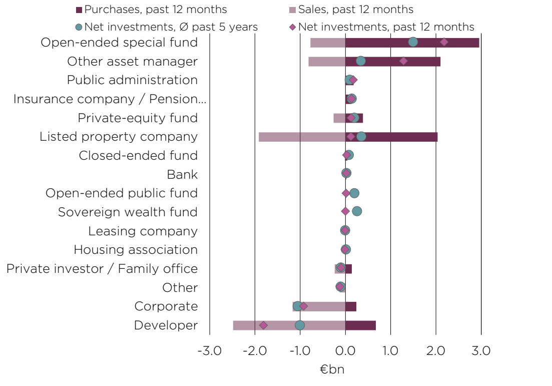
Source Savills

Table 1: Transaction volume at a glance

	Q1 - Q4 2022	y-o-y change
Logistics	6,703	-8%
Industrial	1,863	+29%
Business parks	690	+100%
Total	9,255	+2%

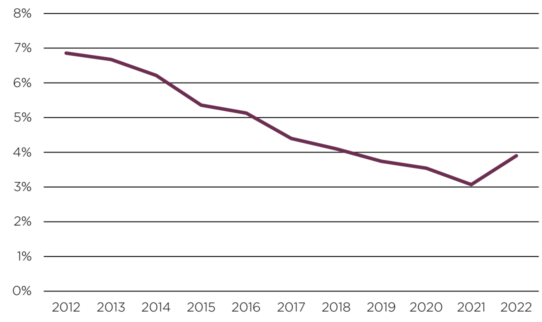
Source Savills / Transaction volume in million Euro

Graph 3: Transaction volume by type of investor



Source Savills

Graph 4: Net initial yields logistics properties



Source Savills / Note: The yield shown for Q4-2022 reflects the midpoint of the spread we have observed between offered and demanded prices. This is between 3.7% and 4.1%.

turnover in industrial real estate. While portfolios were still traded for a good €2bn in Q1, only €1.6bn in portfolio turnover were added in the rest of the year. According to our observation, the large institutional investors in particular are still very cautious and some had suspended all purchasing activities. As a result, only very few large-volume transactions took place in the second half of the year.

Initial yields also rise significantly in Q4 – most of the price correction has probably taken place

The turnaround in interest rates is not only expressed in lower sales, but also in higher initial yields. The price correction continued in Q4-2022 and does not seem to be over yet, especially as the price expectations of buyers and sellers remain quite far apart. To reflect this price ambiguity, we continue to show yield spreads. The prime yield band rose by a further 40 basis points on average across the top 7 logistics regions in the last three months of 2022, to between 3.7% and 4.1%. This means that the prime yield is now 70 to 110 basis points higher than in Q1-2022. We assume that this means that most of the expected rise in yields has now taken place.

Rising vacancy could open up value-add opportunities for investors

The negative capital value effect of increased initial yields has been at least partially offset by rising rents. This is because modern logistics space in particular is still in short supply in the top locations and there is excess demand. Take-up is likely to have reached a new record level last year. For the current year we expect a lower take-up and the vacancy rate could also increase again for the first time in many years, especially in the small-space segment, due to an increasing number of insolvencies. Nevertheless, demand should continue to exceed the supply of modern space and vacancy rates should remain in the restrictive range. At least prime rents should therefore continue to rise, albeit more slowly at first. Should the vacancy rate actually rise this year, opportunities will open up for landlords and investors to modernise these spaces and then bring them to the market when demand picks up again. For in the medium term, demand is likely to increase again and with it the shortage.

Download the charts and raw data here

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