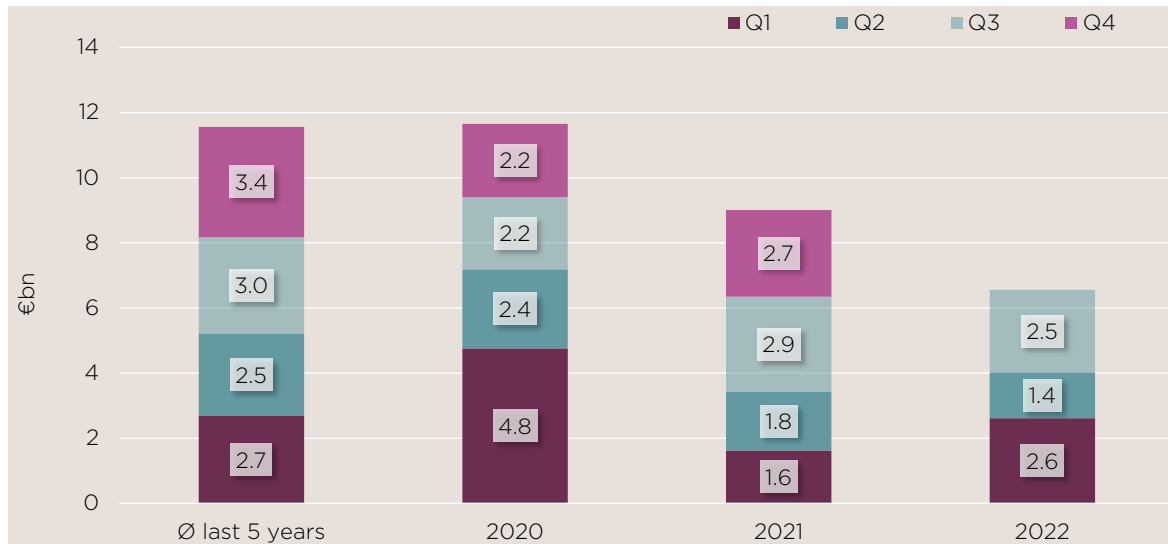


Retail Property Market



Graph 1: Retail transaction volume Germany



Source Savills / Note: Ø5y = average last 5 years

Focus on selected figures



+45%

Institutional investors have accounted for about 45% of the volume so far this year. This year's share is lower than the 5-year average of 49%.



€2.5bn

In the first three quarters, retail parks and supermarkets were traded for around €2.5bn. Compared to the same period last year, this is a decline of 36%.

Retail properties under pressure

On the German retail investment market, real estate was traded for around 2.5bn euros in the 3rd quarter of the year. However, the result is driven by the billion-euro takeover of the shopping centre operator Deutsche EuroShop by the financial investor Oaktree and the investment management company Cura. Without this special impact, the transaction volume would be as low as it was last in 2010. However, due to the takeover and a strong opening quarter, the transaction volume with German retail properties amounted to around 6.6bn euros in the first nine months of the year - compared to the same period of the previous year, this result corresponds to an increase of 3%. The retail property market currently holds too much uncertainty for investors and transaction

activity is still hampered. In particular, the increased borrowing costs and the generally more difficult financing in the retail segment are disrupting the calculations of some investors. This alone is leading to greater restraint among market participants. Added to this are the negative factors in retail such as delivery problems, increased personnel and energy costs and depressed consumer sentiment.

Occupier market presents divided picture

The current market situation is therefore also reflected in the occupier markets and the pressure in the retail sector is coming from all sides. For example, the price sensitivity

Table 1: Key investment market figures retail

	Q1 - Q3 2022	y-o-y change	past 12 months	q-o-q change
High street properties	1,522	- 3 %	1,785	- 14 %
Retail warehouse parks	1,465	- 16 %	2,130	- 13 %
Departments stores	107	- 70 %	134	- 38 %
Shopping centres	1,997	+ 490 %	2,484	+ 248 %
Supermarkets/discounter	983	- 52 %	1,914	- 43 %
Other	480	+ 78 %	768	- 3 %
Total	6,554	+ 3 %	9,215	- 4 %

Source Savills / transaction volume in million Euro

of consumers leaves hardly any room for retailers in the non-food segment to pass on prices to consumers to the necessary extent. Here, price increases are likely to remain below the general inflation rate. So if property owners were to consider raising rents for these tenants on the basis of index clauses, this could put additional pressure on retailers. Especially in the case of expiring leases, there is a risk of rising vacancy rates. But this reflects only one side of the current development. On the other hand, there are some active retailers who see the market environment as an opportunity and continue to expand. Because expanding anti-cyclically and in a thinned-out competitive environment currently offers the opportunity to conclude good contracts in attractive sites.

Decline in transaction volume among food retailers

Shopping centres were the strongest segment (30%) in the year to date due to the Deutsche EuroShop takeover with a volume of almost Euro 2.0bn. High street properties and retail parks are almost on a par, with €1.52bn (23%) and €1.46bn (22%) respectively. Behind them are supermarkets and discounters with a volume share of 15% (983m). The 52% decline in volume of supermarkets and discounters compared to the same period of the previous year (Q1 - Q3 2021) is striking. However, the declining investment volume of supermarkets cannot be equated with declining investor interest, but is rather due to the product shortage on the market. This could continue, as the owners' willingness to sell can be classified as low. This is mainly due to the profitable lease structure in the food retail sector. And it is a strong holding argument in times when a stable cash-flow return is coming more into focus again due to the disappearance of the leverage effect. Because of the current index-linked leases, portfolio holders can expect rent increase potential in the segment in the short to medium term. In contrast to non-food retail, however, supermarket tenants are in a better position to pass on rent increases to customers due to their pricing power.

Yield increase across all retail segments

The phase of price adjustment continued in the past quarter and was made more difficult mainly due to high volatility. However, despite fluctuations, interest rates tended to rise

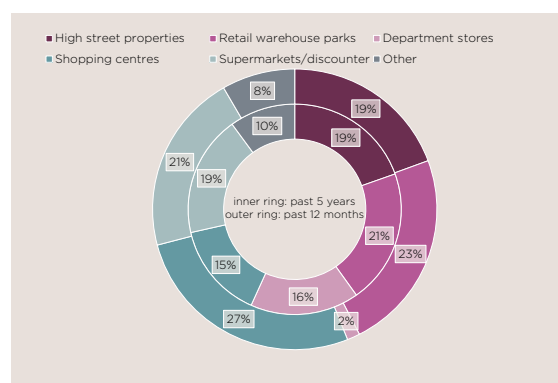
further in the 3rd quarter. Therefore, an increase in net initial yields can be expected across all retail segments. In addition to the high volatility, the price expectations of buyers and sellers are still quite divergent, so that we show yield spreads as in the last quarter. The prime yield for supermarkets and discounters is currently 3.6% - 4.0% (Q2: 3.2% - 3.5%) and for retail parks 3.9% - 4.3% (Q2: 3.6% - 3.9%). The prime yield for shopping centres rose from 5.0% previously to 5.1% - 5.5% and for high street properties from 3.2% previously to 3.2% - 3.6%. Due to the imponderables in retail and the increased and more difficult financing, the risk premium for retail properties may not yet be high enough to significantly stimulate transaction activity. Therefore, a further rise in yields cannot be ruled out in the future.

Retail properties becoming less and less core properties

From the perspective of investors, demand for retail properties will be linked to the overall economic conditions and developments on the financial market until the end of the year and beyond. However, a dynamic year-end rally is not to be expected. Rather, the asset class is undergoing a major transformation process. In view of all the upheavals and uncertainties, retail properties are currently not an attractive investment for risk-averse investors and are increasingly rarely classified as core properties. Of course, there are exceptions in some cases. The retail property market is and will probably remain a shrinking market in the longer term, especially in the non-food segment. This further reduces the investment universe. But it is precisely here that opportunities could lie: the tense market situation could accelerate the upcoming consolidation of retail space further. However, landlords who can maintain an attractive retail stock in their properties in the long term will benefit from this. This is because the demand for the remaining and obviously functioning spaces increases and at the same time leads to a stabilisation of rents. However, a comprehensive understanding of the market is indispensable in order to locate such sites. Investors with the appropriate expertise who look beyond the current crisis have the opportunity to make attractive acquisitions in the current environment.

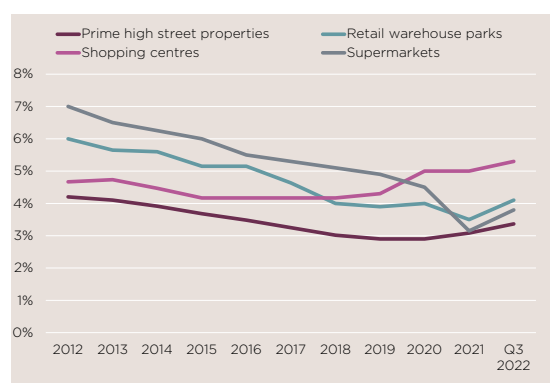
[Download the charts and raw data here](#) 

Graph 2: Transaction volume by type of use



Source Savills

Graph 3: Prime yields retail properties



Source Savills // Note: The yields shown for Q3-2022 reflect the midpoint of the spread of +/- 20 basis points (yield range reflects the different purchase price expectations of vendors and buyers)

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