Germany Retail – January 2023

MARKET
IN
MINUTES
Savills Research

Retail Property Market

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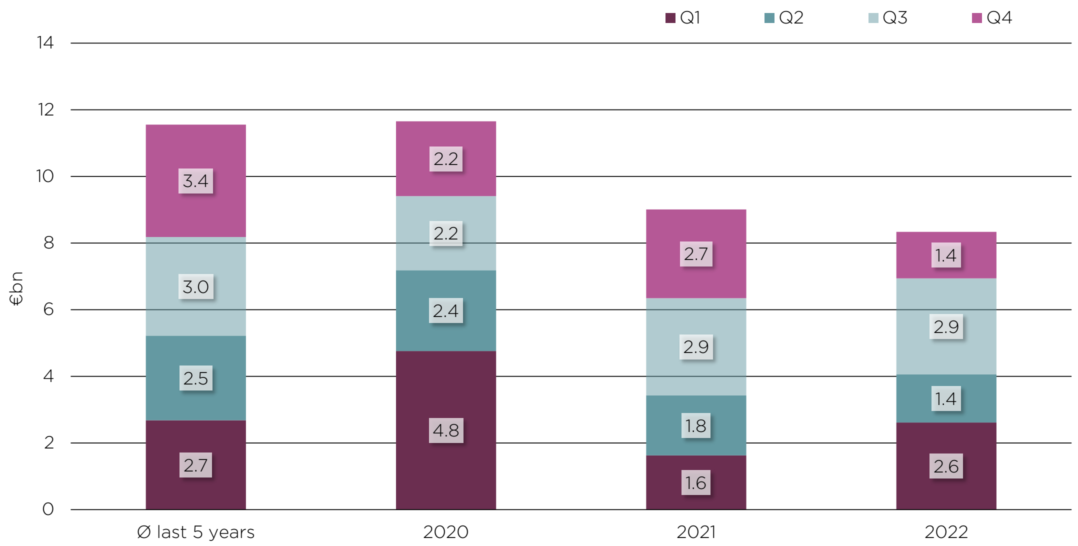
Graph 1: Retail transaction volume Germany



Source Savills / Note: Ø5y = average last 5 years

Crash rather than rally at the end of the year

The German investment market for retail properties closed the year 2022 with a transaction volume of around €8.3bn (-7% compared to 2021). The final quarter appropriately reflects the slow momentum on the retail investment market: just under €1.4bn (- 48% compared to the same quarter of the previous year) were traded in the fourth quarter. This was not only the quarter with the lowest turnover in the past year, but also the final quarter with the lowest transaction volume since 2009. The price finding phase on the retail property market is not yet over. The price expectations of buyers and sellers continue to diverge. In combination with the uncertain interest rate environment, we see a sort of standstill agreement on the investment market. However, investors are also taking a critical look at the occupier market. The continuing crisis mood is fuelling concerns about insolvencies in the retail sector. Therefore, the situation on the retail property market is likely to remain tense and we expect restrained investment activity for the first few months.

Shopping centres dominate transaction volume due to special effect

For the first time since 2016, shopping centres (27% volume share) dominated the transaction volume on the investment market for retail properties, recording a 171% increase in turnover compared to the previous year. However, the result

Focus on selected figures

-37,8
With the third increase in a row, the consumer climate surveyed by GfK continues its cautious recovery. GfK forecasts -37.8 points for January 2023, 2.3 points more than in the previous month.

8,2
The German retail sector generated 8.2 % more turnover than in the previous year due to the strong increase in prices. Adjusted for inflation, however, there was a slight decline in turnover.

Table 1: Retail market indicators at a glance

	Q1 - Q4 2022	y-o-y change	past 12 months	q-o-q change
High street properties	1,792	- 2 %	1,792	- 6 %
Retail warehouse parks	1,890	- 22 %	1,890	- 16 %
Departments stores	457	+ 19 %	457	+ 241 %
Shopping centres	2,233	+ 171 %	2,233	- 14 %
Supermarkets/discounter	1,129	- 62 %	1,129	- 41 %
Other	835	+ 49 %	835	+ 8 %
Total	8,336	- 7 %	8,336	- 13 %

Source Savills / transaction volume in million Euro is due to the billion-euro takeover of the listed shopping centre specialist Deutsche EuroShop by the financial investor Oaktree. At €457 million, the sales volume of department stores also increased compared to the previous year (+19%). The transaction volume of high street properties remained almost stable at €1.8bn (- 2% yoy). The sharpest decline in volume, however, was recorded for retail parks (€1.9bn) and supermarkets/discounters (€1.1bn) with -22% and -62% respectively. In the case of food-anchored properties, we observed last year that the discrepancy in purchase price expectations was particularly large. With the onset of the interest rate turnaround, the high price level in the segment could no longer be maintained and a declining investment volume is now the result. However, the segment has not lost demand, as the attractive fundamental data has not changed. On the contrary, immigration has had additional stabilising effects on grocery retailers. The segment will therefore continue to support the investment market, albeit at a lower price level.

Reliable yield level presumably not until the second half of the year

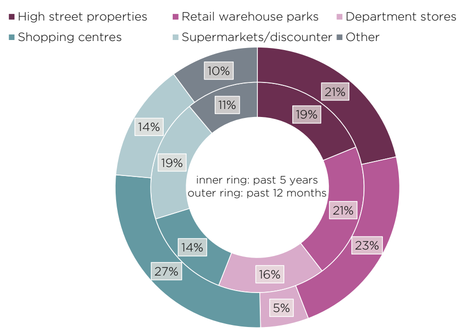
In Q4, there was a further increase in prime yields across all retail types, ranging between 25 and 50 basis points. As before, we show yield spreads to reflect the different price expectations between buyers and sellers. Thus, the prime yield for supermarkets and discounters is now 4.1% - 4.5% (Q3: 3.6% - 4.0%) and for retail parks 4.3% - 4.7% (Q3: 3.9% - 4.3%). The prime yield for shopping centres rose from previously 5.1% - 5.5% to now 5.3% - 5.7% and for commercial buildings from previously 3.2% - 3.6% to 3.5% - 3.9%. For a more liquid market, it is essential that purchase prices consolidate. We expect this to happen in the second half of the year. With few exceptions, portfolio holders did not seem to have any selling pressure in the past months. This situation could change due to expiring financings or funds to be liquidated, bringing more product to the market. At the same time, the expected more stable interest rate environment should increase investors' willingness to buy. However, prices and demand will settle at a lower level - risk-averse investors are likely to remain cautious on the retail property investment market. The exception might be the grocery retail segment.

Retail space consolidation will shape 2023

Even though the negative factors caused by the COVID 19 pandemic gradually subsided, the tense situation for the retail sector persisted. The continuing real loss of purchasing power of private households and the cost pressure on retailers continue to barely leave any room for a recovery in retail sales. Insolvencies and further consolidation of retail space are likely to be the result, and with them an increased risk of vacancies and rent defaults in the retail property market. This is expected to further sharpen the risk perception of investors and financing institutions. The department stores' group Galeria Karstadt Kaufhof will make a start when the shop closures are announced in January. With up to 90 closures, this is probably going to mean additional vacancies for numerous municipalities. And this in properties that, due to their inflexible architecture, can hardly be redeveloped or only at high cost. Demolition and new construction is already the plan for some locations, such as in Cologne or Frankfurt. They will probably not be the only ones. The reallocation of redundant retail space is thus becoming the imperative of the hour, and this does not only apply to the ailing department stores' group. The fact that more and more non-retail uses are renting inner-city space can already be observed. Market participants from the leisure, entertainment and service sectors are entering the market and e-car manufacturers are also still looking for showrooms. Due to the adjusted rent level, such utilisation concepts are now able to rent the space once occupied by retail. At the same time, there are still expanding retailers and new market entries will also be seen in the current year. Nevertheless, leasing decisions are being made with caution and the willingness to compromise on space and location continues to decline. Unaffected by this is the luxury sector. Due to the persistently high excess demand for such space, landlords continue to dominate the market.

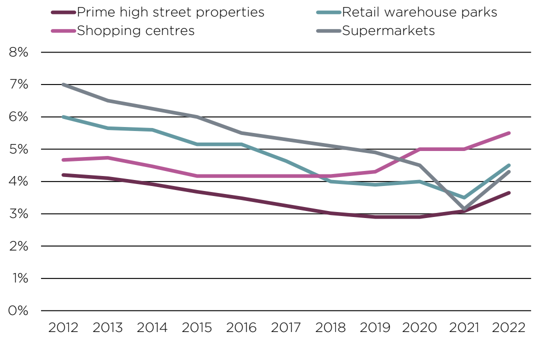
Download the charts and raw data here

Graph 2: Transaction volume by type of use



Source Savills

Graph 3: Prime yields retail properties



Source Savills / Note: The yields shown for Q4-2022 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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