

Industrial property market Germany

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Dampened economy puts the brakes on the industrial property market

With a transaction volume of just under 1.5 billion euros, the third quarter was the strongest this year on the investment market for logistics properties, industrial properties and business parks. The total volume for the first nine months was just under 3.6 billion euros, 56% below the comparable figure for the previous year. Logistics properties accounted for 72 % of the volume, industrial properties for 16 % and business parks for 12 %. The latter continue to be very popular with investors, which is why the year-on-year decline of 29% is by far the smallest. Despite the sharp decline in turnover, logistics and industrial properties achieved a record share of 22% of the commercial transaction volume and rank second behind retail properties (29%), just ahead of the office segment (also 22%). In relative terms, logistics and industrial properties are currently a winner and are on a par with retail and office properties. Nevertheless, this fact cannot hide that transaction activity has also decreased significantly in the logistics and industrial

segment and that the effects of the interest rate turnaround are also strongly slowing down market activity here.

Fewer and smaller deals

The lower activity can also be seen in the number of closed transactions. Since the third quarter of 2022, the number of deals has fallen continuously. In 2023, we counted 126 transactions of logistics and industrial properties by the end of September, which corresponds to a decline of 44% compared to the same period of the previous year. In the portfolio segment, the decline is even greater at 60%. The average transaction size has also fallen and was most recently €25 million. This is in line with the current preference of investors, who again prefer smaller deals in the same order of magnitude. Even investors who previously liked to acquire large halls in the three-digit million euro range are now opting for smaller lot sizes in order to diversify their risk.

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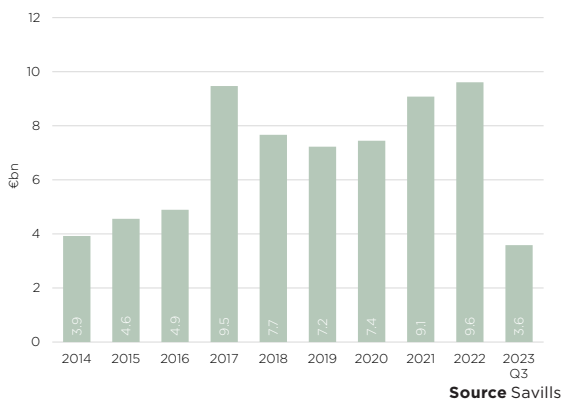
22%

With a record share of 22%, the logistics and industrial property segment was the second highest-turnover commercial use type after retail in 2023.

201

Just over 200 transactions were concluded in the last twelve months - this is the lowest figure since the third quarter 2014.

Graph 1: Transaction volume industrial properties Germany



Graph 2: Transaction volume by type of use

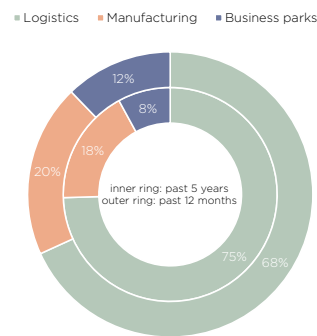
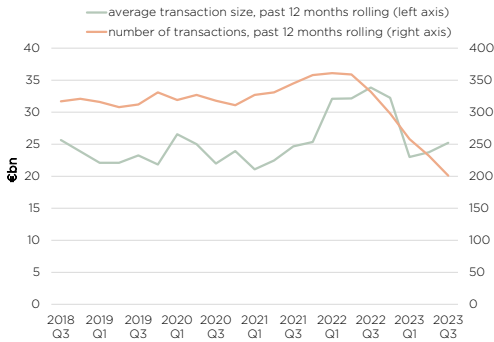


Table 1: Transaction volume at a glance

	Q1 - Q3 2023	Y-O-Y CHANGE	PAST 12 MONTHS	Y-O-Y CHANGE
Logistics	2,577	-57%	3,456	-59%
Manufacturing	578	-61%	994	-50%
Business parks	428	-29%	619	-17%
Total	3,584	-56%	5,069	-55%

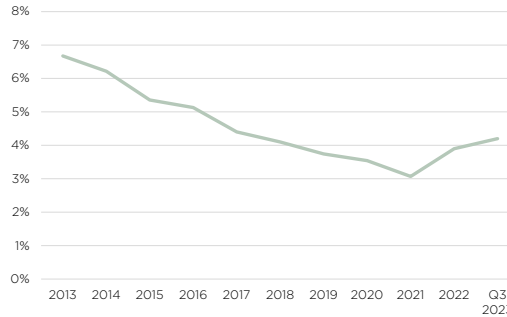
Source Savills / Transaction volume in million in Euro

Graph 3: Deal size and number of transactions



Source Savills

Graph 4: Prime net initial yield logistics properties



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

Peak in prime yield probably not yet reached

The transaction volume has not only declined due to a lower number of deals. The lower price level has also contributed to this. Whereas at the beginning of the year we were still observing prices per square metre of slightly less than 2,000 euros for high-quality logistics properties, these fell to around 1,500 euros in the middle of the year and recently even trended towards 1,000 euros. The prime yield at the end of the third quarter rose by 20 basis points to 4.2% compared to the previous quarter. Since the turnaround in interest rates has probably still not been fully reflected in real estate prices and the economic outlook has recently clouded over, the correction in yields is probably not yet complete.

Sentiment and turnover on the user markets cloudy

While the investment market has come under pressure due to the turnaround in interest rates, the user markets have so far shone with good fundamental data. After two boom years, the development here now seems to be returning to normal. Overall, we continue to observe solid demand for space, although demand for large spaces in particular has fallen. The supply of space remains scarce for the foreseeable future, especially since the lack of speculative developments and the difficult situation of some project developers

are likely to limit supply growth. Recently, rents in the logistics segment have continued to rise, albeit at a slower pace. This trend is likely to continue at a slower pace. The fact that many companies are reluctant to sign contracts for new spaces is already reflected in the take-up of space, which in the first half of the year was around 60% below the strong level of the previous year. Many companies are waiting and optimising their existing space. Even if the fundamental data for the logistics segment are generally positive, the industry climate has recently declined again. Moreover, business expectations are assessed as poorly as they were at the beginning of the war in Ukraine, when they reached an all-time low.

Increasing activity not expected until next year

Higher activity is not expected in the final quarter on either the occupier or the investment market. On the investment market, there is and will be some product coming onto the market, but it is still unclear how great the demand for it will be, since in many cases it is for older existing properties. At the same time, there is still a gap between the owners' purchase price expectations and the offers from potential buyers. In addition, banks have become more restrictive in granting loans in view of the increased risks, which makes transactions even more difficult. We do not expect the investment market to pick up until the second half of 2024 at the earliest.

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

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