MARKET IN MINUTES
Savills Research

Industrial property market Germany

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Weakest investment year in terms of turnover since 2016, but relative increase in importance

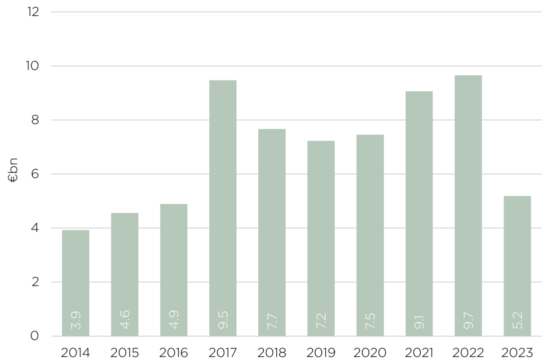
The investment market for logistics properties, production properties and business parks contracted significantly in 2023, due in particular to developments on the financial markets. The number of sales and transaction volumes have fallen, as have prices. The weakening economic environment, on the other hand, was largely responsible for falling take-up on the user markets. By contrast, rents, particularly in the prime segment, continued to rise.

Record-high share of commercial investment volume

In relative terms, however, the industrial property segment has continued to gain in importance. The share of turnover in the total commercial transaction volume was 24% in 2023, which is higher than ever before. With a transaction volume of €5.2 billion, the weakest year in terms of turnover since 2016, the segment was in second place behind retail property and ahead of offices. The 46% year-on-year decline was due to both the significantly lower number of transactions and the lower price level. More than one hundred fewer transactions were concluded in 2023 than in the previous year, which corresponds to a decline of 36%. The prime yield rose by 40 basis points to 4.3% over the course of the year. This means that the increase in yields has slowed significantly compared to the previous year. In 2022, the prime yield rose from its low of 3.0% to 3.9%.

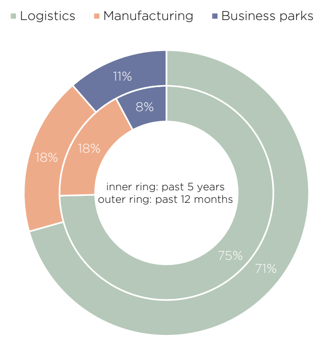
The year 2023 was characterised by the search for a price that is acceptable to buyers and sellers. This phase of price discovery is not yet complete, but both sides are increasingly close to each other. There was also a noticeable increase in market activity at the end of the year, which is likely to continue in 2024. The increased market momentum is also reflected in the figures: the fourth quarter was the quarter with the highest number of transactions last year with just over 50 deals.

Graph 1: Transaction volume industrial properties Germany



Source Savills

Graph 2: Transaction volume by type of use



Source Savills

FOCUS ON SELECTED FIGURES

40%

Around 40% of the transaction volume in 2023 was attributable to locations outside the established 28 logistics regions. This is the highest figure since the begin of our time series in 2009.

52

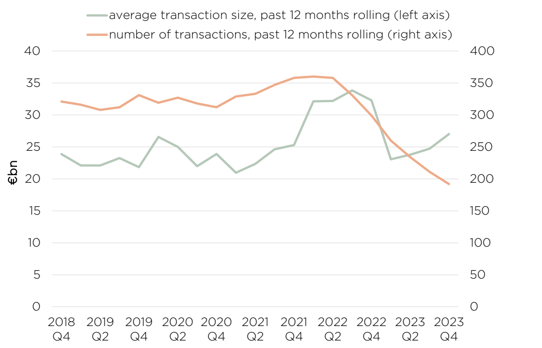
In the 4th quarter, we counted 52 individual property sales, significantly more than in each of the first three quarters of the year.

Table 1: Transaction volume at a glance

	Q1 - Q4 2023	Y-O-Y CHANGE	PAST 12 MONTHS	Y-O-Y CHANGE
Logistics	3,665	-47%	3,665	-47%
Manufacturing	930	-52%	930	-52%
Business parks	593	-25%	593	-25%
Total	5,188	-46%	5,188	-46%

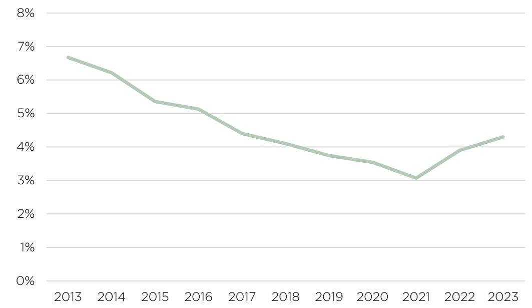
Source Savills / Transaction volume in million in Euro

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)

This development was driven in particular by the increased number of single property transactions.

Differentiated demand on the investment market

Many investors are currently looking for suitable products. However, the properties offered on the market do not always meet the demand. For institutional investors, this usually applies: Only properties in good locations with a high standard in terms of ESG and energy supply are investment-grade products. Value-add investors are also looking for products that can be upgraded to ESG standards. However, such transactions only materialise if the buyer and seller can agree on a price that is acceptable to both sides, which we have not yet observed in all sales processes. According to current investor surveys, however, there is a general interest in investing more in the logistics segment. Last year, for example, Meag invested in Germany again after a long period of abstinence and has announced further investments for the coming years.

Last year, investors favoured individual properties with a volume of between 25 and 50 million euros. Larger deals were rare and are currently not desired by many investors. Overall, the number of buyers active on the market in 2023 fell by around 30%, from around 130 in the previous year to around 90. Domestic buyers were dominant last year, accounting for 60% of the volume (2022: 53%).

User market remains robust even in a difficult economic environment

The investment market continues to be supported by the favourable situation on the user markets from an investor's perspective. Although the rather poor business climate in the past year has also left its mark there and led to falling take-up, the vacancy rate is very low at less than 3% and the rent level has also continued to rise in 2023. By contrast, new construction activity has slumped, with around a third less space completed than in the previous year. Among other things, high land and construction costs and more difficult financing conditions meant that fewer new buildings were completed and launched. This applies in particular to speculative developments. As long as the number of new builds remains at a low level, existing properties will gain in importance. In addition, the potential for greenfield sites is limited due to the increasingly restrictive regulations on land sealing and the many restrictions on the creation of logistics space.

Signs of cautious optimism in 2024

A number of signs point to cautious optimism for 2024. Deutsche Hypo's real estate climate index for the logistics segment has risen continuously since August and is the only commercial segment to exceed the threshold value of 100. The medium-term outlook for the logistics sector is also good: the e-commerce sector and thus the demand for corresponding logistics space will continue to grow. Reshoring endeavours are also likely to generate additional demand in the future. There are also slight signs of easing on the financial markets: the key interest rate has not been raised any further since September and forecasts predict a decline in 2024. SWAP rates have also fallen sharply since October. This leads us to expect lower borrowing rates, although financing conditions are likely to remain as restrictive as last year. If the financial market environment stabilises, more players and transactions can be expected in 2024 than in the previous year, even if this revival may not materialise until the end of the year.

Download the charts and raw data here

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