MARKET IN MINUTES
Savills Research

Investment Market Germany

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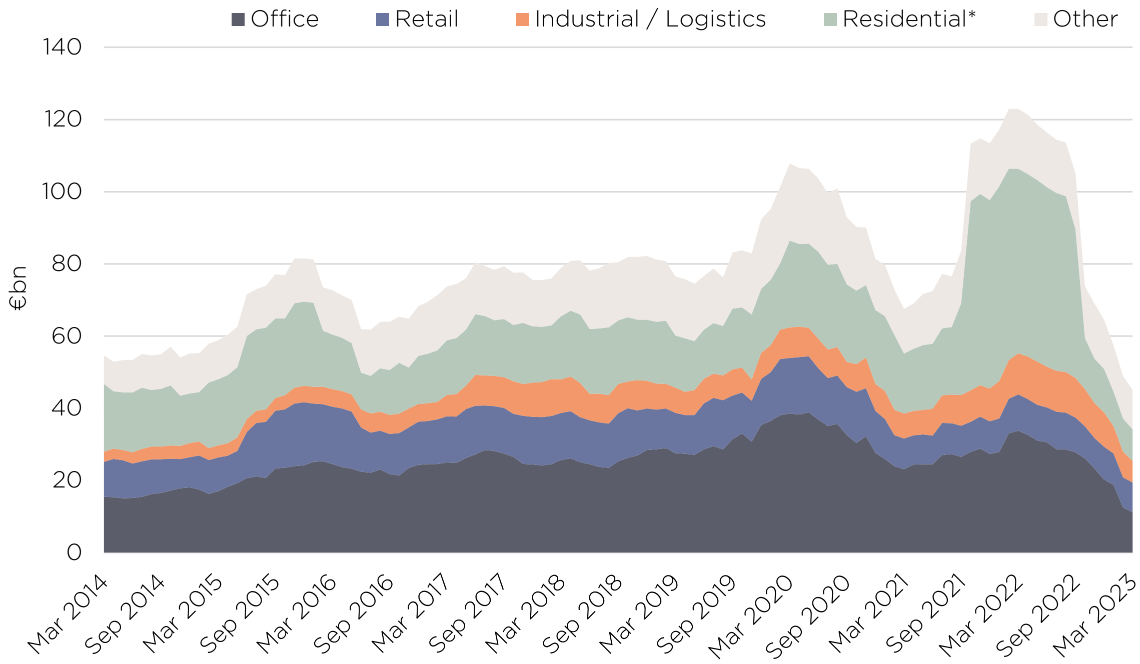
Graph 1: Transaction volume Germany (past 12 months rolling)



Source Savills / *only transactions with at least 50 residential units

FOCUS ON SELECTED FIGURES

<€6bn

The transaction volume in Q1 2023 was only €5.9bn. The last time there was a quarterly turnover of less than €6bn euros was in 2010.

No. 1

For the first time since Q2 2014, retail properties were again the highest-turnover market segment in a quarter. A transaction volume of €1.7bn euros was sufficient for this.

Waiting for the right price

The adjustment phase on the German real estate investment market triggered by the steep rise in interest rates continued in Q1 2023. We counted less than250 transactions, less than half as many as the average for the quarters from 2020 to 2022. The transaction volume was correspondingly low: A turnover of just over €4.7bn in commercial real estate and €1.2bn in residential real estate is equivalent to the lowest turnover of a quarter in more than ten years. In our view, many players in the real estate investment market are still busy adjusting to the new capital market environment. They are also inhibited by the still very high volatility of interest rates. Transaction activity is therefore likely to remain low until interest rates have stabilised and buyers and sellers have more calculation certainty again. Although we are already observing more sales preparations, since there are usually several months between the start and the signing of a transaction, a significant increase in turnover is not to be expected until the end of the year at the earliest. Another prerequisite for this is probably also a further price correction. While landlords are hoping for prices to rise again, many buyers are betting on a further decline. We see the sluggish fundraising as a clear indication that returns on real estate investments must rise in order to attract new capital.

Rising initial yields with question marks

In addition to the uncertainties in the macro environment, it is precisely the different price expectations of buyers and sellers that continue to inhibit transactions. This is particularly true in the core segment, where hardly any transactions

Table 1: Transaction volume (€m)

	MAR 2023	LAST 12 MONTH (APR 2022 TO MAR 2023)	AGAINST APR 2021 TO MAR 2022)	AGAINST (MAR 2022 TO FEB 2023)
COMMERCIAL	2,459	36,414	-49.3%	-8.2%
RESIDENTIAL*	449	8,741	-82.9%	-5.1%
TOTAL	2,907	45,155	-63.3%	-7.6%

Source Savills / * only residential transactions with at least 50 units took place in the first three months of the current year. Accordingly, the prime yields, which we have raised again in most segments compared to the previous quarter and continue to show in ranges of +/- 20 basis points in view of the lack of transactional evidence, are not very reliable. We are certainly observing numerous potential buyers and even more potential sellers - but in many cases there is currently no price at which the parties would agree to trade. Since the low-yield segment in particular reacts sensitively to interest rate changes and owners of such properties are rarely under pressure to sell, the volatile interest rate environment has a particularly dampening effect on transactions here. In our view, the longer this stalemate on the market lasts, the more likely it is that yields will continue to rise, because a wave of selling could build up in this way, which, when it rolls off, will cause prices to fall.

Near-standstill in trading of large-volume properties and portfolios

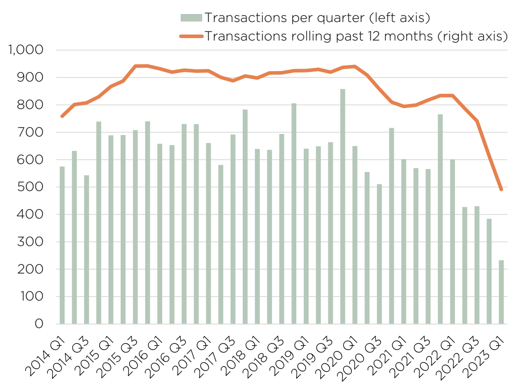
The different degrees of interest rate sensitivity are also expressed in the turnover development of the individual types of use. While the transaction volume for office, industrial/logistics and residential properties, which in recent years have been dominated by core and core-plus transactions, fell by more than 70% to 90% compared to the same quarter of the previous year, the decline in turnover for retail properties was comparatively moderate at 34%. The latter were even the highest-turnover type of use in Q1 2023. The strong decline in turnover in the other three segments mentioned is also due to the fact that trading in large-volume properties and portfolios has almost come to a standstill. In total, we registered only eight transactions in the three-digit million euro range, including only three portfolio transactions (including Deutsche Euroshop's de facto portfolio).

Buyer field could thin out further

The Deutsche Euroshop transaction is an exception in another respect: it was the only acquisition by a listed property company. Otherwise, this investor group has completely withdrawn from the market as a buyer and has switched to the seller side. In contrast, the private equity companies have positioned themselves, although they have only made a few purchases in the first months of the current year. Like many value-add investors, they are counting on a further price decline and distressed situations. The extent to which this will happen depends largely on the further development of interest rates and on how dense the other buyer field still is. On the one hand, a number of institutional investors have signalled their interest in buying and still have money they want to spend. On the other hand, there are indications that they are raising much less additional money for property investments than in recent years. For landlords with the intention to sell, this could mean that those who do not have the staying power and can wait a few more years to sell are probably better off putting their properties on the market now and not hoping for a cycle turnaround soon.

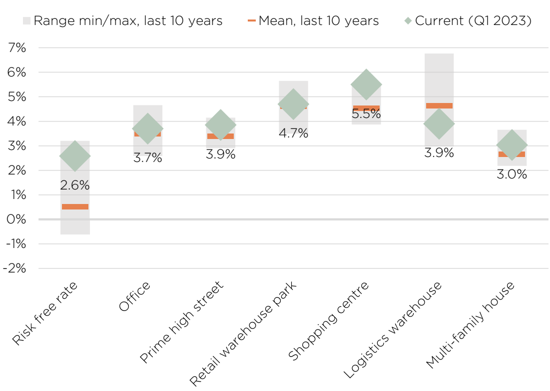
Download the charts and raw data here

Graph 2: Number of Transactions*



Source Savills/ * commercial and residential properties

Graph 3: Prime yields (Ø Top 6)



Source Focus Economics, Savills / risk free rate = 10Y government bunds / Multi-family house: only existing stock, calculated according to Bulwiengesa; Note: The yields shown for 2022/2023 reflect the midpoint of the spread of +/-20 basis points we have observed between offered and demanded prices.

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