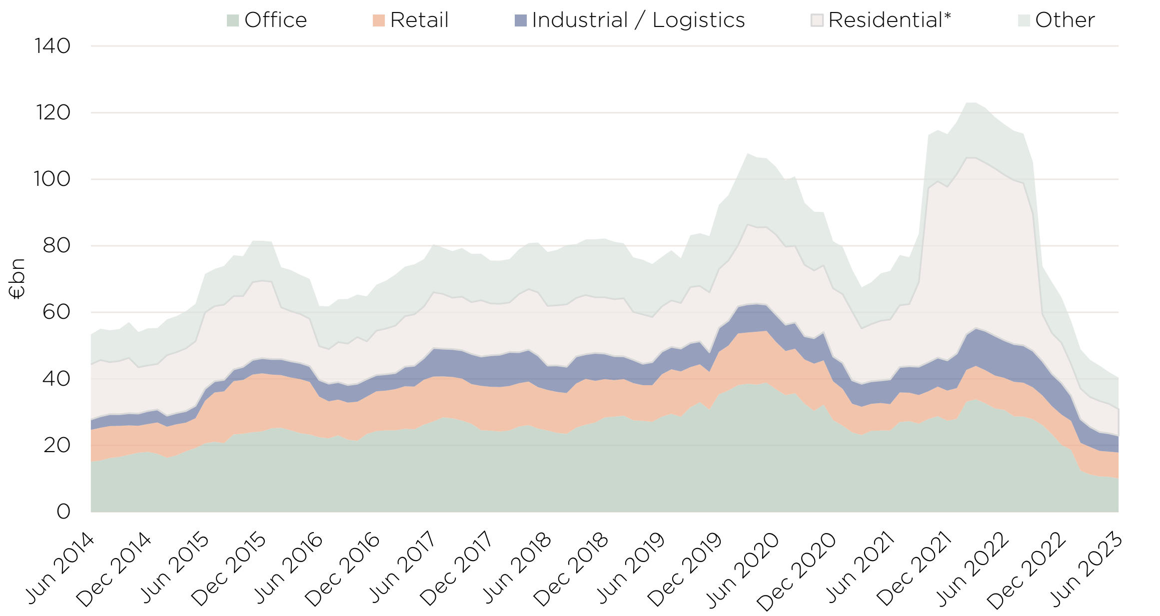
MARKET IN MINUTES
Savills Research

Investment Market Germany

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



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

The price fog is lifting

Activity on the German real estate investment market stabilised in the 2nd quarter of the year but remained exceptionally low. Both the number of transactions and the transaction volume were roughly in line with the values of the 1st quarter (see Fig. 1+2). For the 1st half of 2023, the transaction volume totalled approx. €13.3bn. This is about two-thirds less than in the same period of the previous year and at the same time the lowest turnover of a 1st half-year since 2011.

Small is beautiful

Activity in the large-volume segment has declined particularly sharply. The market is comparatively liquid up to a volume of about fifty million euros, above which only a few transactions have taken place recently. Transactions in the triple-digit million euro range, which were commonplace until the beginning of last year, are hardly registered at present. We see three main reasons for this development. Firstly, the considerably lower prices in all segments contribute to this. Secondly, debt capital has become scarcer and more expensive, as a result of which investors are acting with more equity and the leverage is correspondingly smaller. Thirdly, the fact that larger transactions are more difficult for investors to handle means that many owners are postponing pending sales of larger properties.

Majority of institutional buyers inactive

The buyer side is also still characterised by restraint. This applies above all to the large institutional investors. Of the thirty largest investors in terms of purchase volume from 2017 to 2021, i.e. the years before the start of the interest rate turnaround,

FOCUS ON SELECTED FIGURES

4%

The prime yields for offices, high street properties and logistics properties were all around the 4% mark at the end of the second quarter.

€20m

The average purchase price for an individual property in the first half of 2023 was just under €20m, around a quarter below the value of the two previous years.

Table 1: Transaction volume (€m)

	MAR 2023	LAST 12 MONTH (JUL 2022 TO JUN 2023)	AGAINST JUL 2021 TO JUN 2022)	AGAINST (JUN 2022 TO MAY 2023)
COMMERCIAL	2,516	32,385	-51.5%	-2.4%
RESIDENTIAL*	402	7,972	-84.0%	-10.2%
TOTAL	2,918	40,358	-65.4%	-4.0%

Source Savills / * only residential transactions with at least 50 units twenty have not yet realised a single purchase this year. In general, practically all investor groups have significantly reduced their acquisition volume. The only two exceptions are the public sector and corporates, i.e. two non-return-oriented investor groups. Although asset/investment managers massively reduced their purchase volume compared to the first half of the previous year, they remained the largest buyer group. Above all, however, we are observing individual investors from various groups, including family offices and insurance companies, who see opportunities for acquisitions in the current environment. The environment of rising interest rates and falling prices is particularly attractive for equity-rich and long-term investors. The former makes for less competition, the latter offers the opportunity for value appreciation. Especially in the residential market, the shortage is likely to intensify in the coming years, so that the current price dip opens a favourable investment window.

Slowing rise in yields

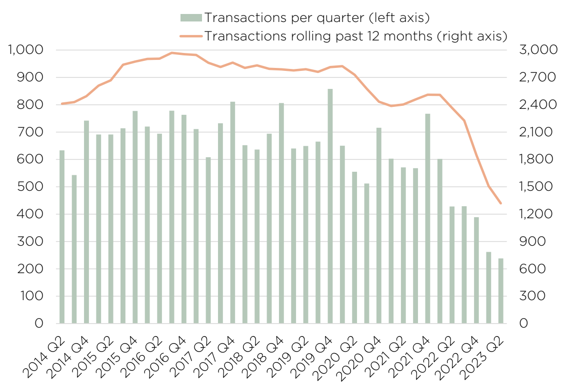
Prices continued to fall for the most part in Q2, but the rise in initial yields has slowed. Across all segments, according to our observation, prime yields have risen by an average of about 20 basis points over the last three months and now stand at 3.4% for multi-family houses and between approx. 4.0% (office, commercial, logistics) and approx. 5.5% (shopping centre) in the commercial property segment (see Fig. 3). Since hardly any transactions took place in the core segment with the start of the interest rate turnaround and there was high uncertainty about the achievable prices due to the interest rate volatility, we had shown the prime yields of all segments as ranges since the 2nd quarter of 2022. Due to the increased transaction evidence in recent months and the more stable interest rate environment, we are now able to provide point values again for most segments. Only the market for high street properties and shopping centres is still so illiquid that we continue to show the prime yields here as ranges with a bandwidth of 40 basis points in order to indicate the low reliability.

Increased price transparency should spur transactions

reliability. Even if the price fog that had hung over the investment market since last spring has not yet completely disappeared, it has at least lifted considerably. In most market segments there have been benchmark transactions that market players can use as a guide. This could provide more liquidity in the market again. After all, it was, among other things, the low price transparency that prevented or slowed down many transactions. Although the overall willingness to sell is still low, owners are again targeting sales, at least selectively. Some want to build up liquidity as a precaution, for example for upcoming refinancing, while others want to clear their portfolios of properties that are not ESG-compliant. Overall, we therefore expect supply to increase over the rest of the year and, since capital is available for purchases, the transaction trough could soon be overcome. In recent weeks, we have already observed an increasing number of sales processes, at least in the commercial property market, that have started or are in the pipeline. Against this backdrop, the number of deals could increase again in autumn. Nevertheless, the transaction volume this year is likely to be about half as low as in the previous year (approx. €64bn).

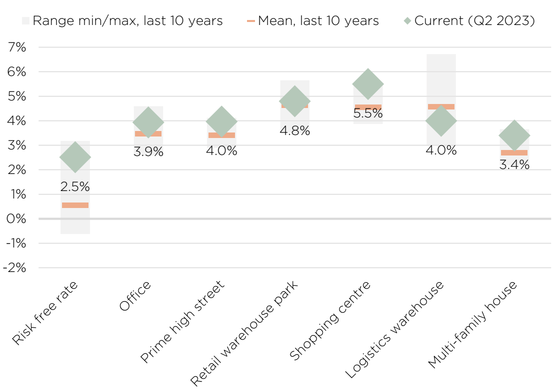
Download the charts and raw data here

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 askings and offerings.

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